



2011 Annual Report

Ultimate
SOFTWARE
People first.



The Ultimate Software Group, Inc.

SHAREHOLDER LETTER

Dear Shareholders,

2011 was a good year for Ultimate. Our all-important recurring revenues increased 25% compared with 2010 and passed the milestone of \$200 million, reaching a record \$213.8 million, just one year after our total revenues surpassed the \$200-million milestone in 2010. Our recurring revenues were 79% of total revenues in 2011, up from 75% in 2010. Our total revenues climbed to a record-high of \$269 million in 2011, an 18% increase over the previous year. At the same time, our annual customer retention rate was greater than 96% once again for the year.

2011 marked the 10th year in a decade of strong, consistent growth in our Software-as-a-Service (SaaS), or cloud, recurring revenues. Our compounded annual growth rate for SaaS recurring revenues was 31% for the decade ending with 2011.

Based upon our total number of SaaS customers (2,300+ companies) and the number of people records handled in our cloud environment (7,000,000+) at the close of 2011, we believe that Ultimate has the largest customer base in the United States using cloud-based solutions for comprehensive payroll, human resources, talent management, and time management in the market today. Our market share in our Enterprise sector (those businesses with more than 1,000 employees) is now approximately 10%, and our market share in our Workplace sector (those businesses with 200-1,000 employees) is approximately 3%.*

Our new customers in 2011 continued to attach multiple add-on product components when they signed up for our core UltiPro solution—reflecting our customers' unabated appetite for a single, all-inclusive people management solution. In our Enterprise market, our 2011 attach rates were 62% for Recruitment, 70% for Onboarding, 60% for



Scott Scherr
Chairman, Chief Executive Officer, and Founder

Performance Management, and 50% for Time Management. In our Workplace market, our 2011 attach rates were 77% for Recruitment, 54% for Onboarding, 69% for Performance Management, and 79% for Time Management.

Our market indicators suggest that interest in our solutions increased throughout the 2011 year. In the fourth quarter of 2011, we had an all-time record for the highest number of unique visitors to our Web site over any prior quarter, and that number was a 20% increase in traffic over Q4 2010. At our Interactive HR Workshops that we held throughout the United States, we identified a record number of registrants who said they are looking for a new human resources and/or payroll solution—a 78% increase for 2011 over 2010—and in our print and online advertising, we had a greater than 200% increase in number of responders for the year compared with 2010. That too was a record-high for Ultimate.

*Data is from Hoover's/D&B numbers of non-subsiary U.S. companies and Ultimate's customer numbers, both as of 1/4/2012.

SHAREHOLDER LETTER *(continued)*

We added Succession Management to our suite of UltiPro cloud solutions for managing employees from recruitment through retirement in 2011. UltiPro Succession Management was designed to involve employees and managers in an ongoing, collaborative process. Employees can manage their own talent profiles—updating factors that influence succession readiness such as mobility preferences, languages, education, accomplishments, and competencies—to ensure that our customers’ leadership has a rich understanding of their companies’ talent landscapes while managers have the flexibility to develop succession plans for jobs, talent pools, or individuals.

Ultimate earned some third-party recognition in 2011 that substantiates the excellence of our people, products, and services. In October, Forrester Research, a leading technology, research, analysis, and advisory firm, selected Ultimate as a Groundswell Award winner for our collaborative customer community called “Ideas” that is a forum for our customers to share information with one another and provide direct feedback to us about UltiPro. In November, Ultimate won a SuperNova Award from Constellation Research in the advanced analytics category for a predictive analytics tool that HR leaders can use to assess employee retention risks proactively.

In our first year of applying for FORTUNE’s “100 Best Companies to Work For” list, we were ranked #25, building on our two prior-year #1 rankings on the mid-sized company list from the Great Place to Work Institute. The FORTUNE ranking is a very big honor for us. We are *the only* human capital management provider on the list, and we are *the highest ranked* cloud vendor on the list. The list was published in January 2012 and includes many of the country’s largest and most respected companies, such as Adobe, Google, Intel, Microsoft, Mercedes Benz USA, Starbucks, and Whole Foods Market.

We released our new company branding on January 23, 2012. Our new tag line, “People first,” embodies the essence of who we are at Ultimate—a company that recognizes the power of talented, motivated people to produce momentous business results. People are the center of everything we do. They are the backbone of our own business—and the purpose behind the solutions we develop to help other organizations work smarter, create more people-centric environments, and meet their business goals.

We are well-positioned for the future and look forward to executing on the many opportunities ahead of us. Our goals for 2012 are to:

- 1. Increase total revenues**
By investing in innovative product development and customer services, we are able to provide businesses with a high-quality customer experience that drives desire for our solutions and gives us the opportunity to continue growing our total revenues.
- 2. Increase our recurring revenues**
Our recurring revenues were 79% of our total revenues for the 2011 year versus 75% for 2010, and we expect to continue increasing that percentage as we focus on our cloud delivery model.
- 3. Maintain our customer retention rate above 95%**
By continuing to enhance our products and services, our people develop strong and enduring customer relationships that provide us a consistent revenue stream and many references for new business.

Our approach to business is much the same now as it has been since the inception of Ultimate. We find and retain the most talented employees, and their goal is to keep our products, services, and the overall experience of our customers at the top of our industry.

SHAREHOLDER LETTER *(continued)*

Delivering on this objective has always been the driver of our success and will continue to influence our decisions as we move forward.

On behalf of Ultimate's Board of Directors and our management team, I thank you, our shareholders, for your continuing support and partnership with us.

A handwritten signature in black ink, appearing to read "Scott Scherr", followed by a long horizontal line extending to the right.

Scott Scherr
Chairman of the Board of Directors, Chief
Executive Officer, and Founder
Ultimate

FINANCIAL HIGHLIGHTS

SELECTED FINANCIAL DATA

FOR THE YEARS ENDED DECEMBER 31

Operating Data (In Thousands, Except Per-Share Data) (1)	2009	2010	2011
Revenues			
Recurring	\$133,159	\$170,905	\$213,785
Services	58,996	55,368	53,195
License	4,125	1,538	2,218
Total Revenues	\$196,280	\$227,811	\$269,198
Gross Profit	\$108,461	\$128,569	\$152,864
As a % of Total Revenue	55%	56%	57%
Operating Expenses and Other	\$108,546	\$120,398	\$136,742
As a % of Total Revenue	55%	53%	51%
Provision for Income Taxes (2)	721	5,161	11,840
Loss from Discontinued Operations, Net of Income Taxes (3)	(336)	(853)	—
Net Income (Loss)	\$(1,142)	\$2,157	\$4,282
Diluted Net Income (Loss) Per Share	\$(0.05)	\$0.08	\$0.15

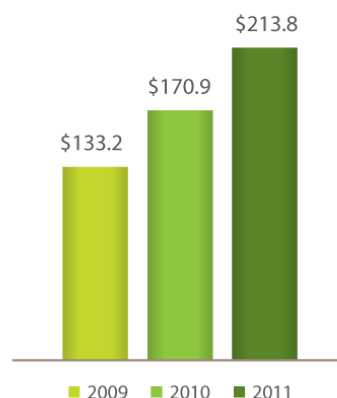
(1) Operating data, excluding Loss from Discontinued Operations, Net of Income Taxes represents financial results from continuing operations.

(2) See Note 15 of the notes to consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2011, of The Ultimate Software Group, Inc. and subsidiaries, filed with the Securities and Exchange Commission on February 29, 2012 (the 2011 Form 10-K) for information regarding the provision for income taxes.

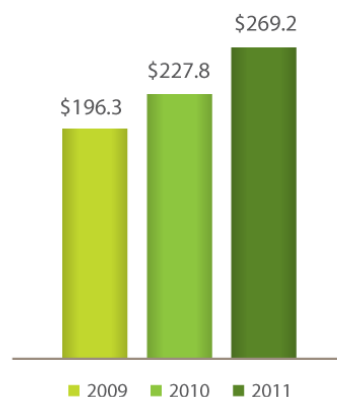
(3) We discontinued and liquidated the operations of our wholly owned subsidiary in the United Kingdom in 2010.

Balance Sheet Data (In Thousands)	2009	2010	2011
Cash and Cash Equivalents	\$23,684	\$40,889	\$46,149
Investments in Marketable Securities	\$9,523	\$9,317	\$9,130
Total Assets	\$171,130	\$249,557	\$318,820
Deferred Revenue	\$68,559	\$78,095	\$86,563
Long-Term Debt, Including Capital Lease Obligations, Net of Current Portion	\$1,710	\$2,406	\$2,175
Stockholders' Equity	\$57,770	\$72,985	\$85,624

Total Recurring Revenues

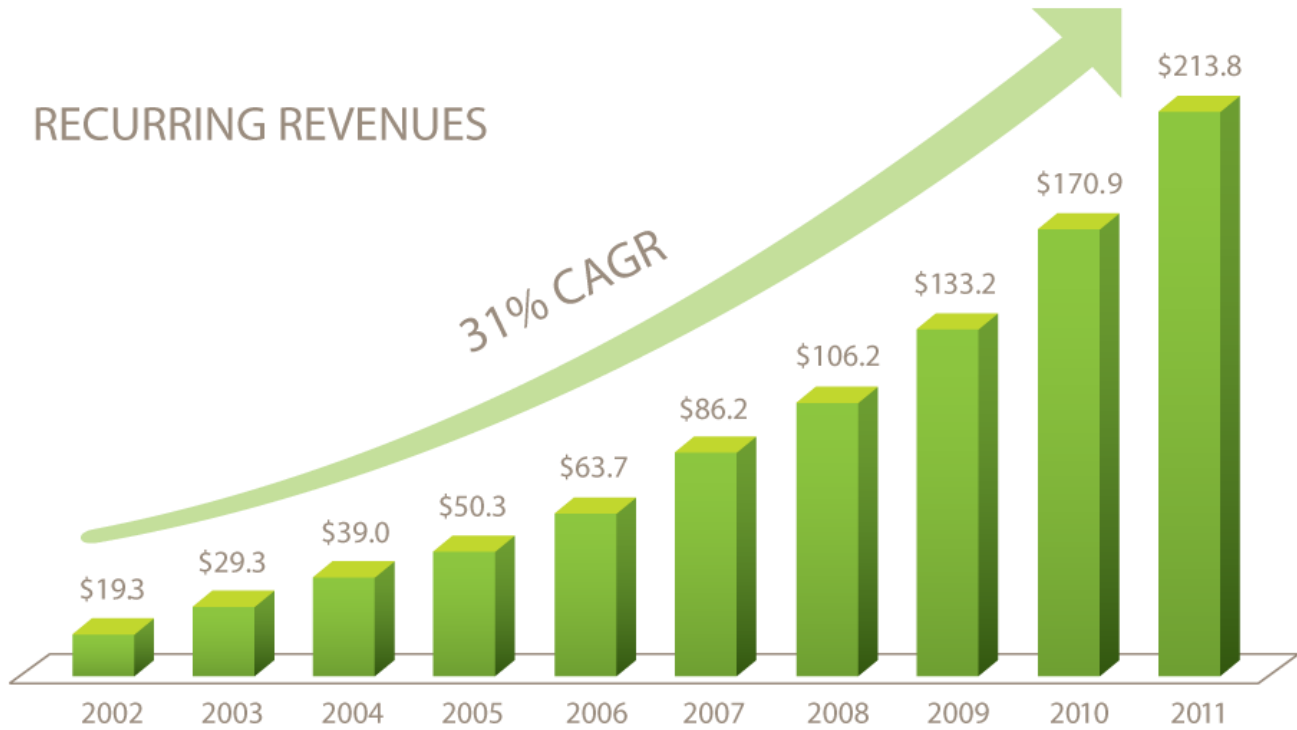


Total Revenues

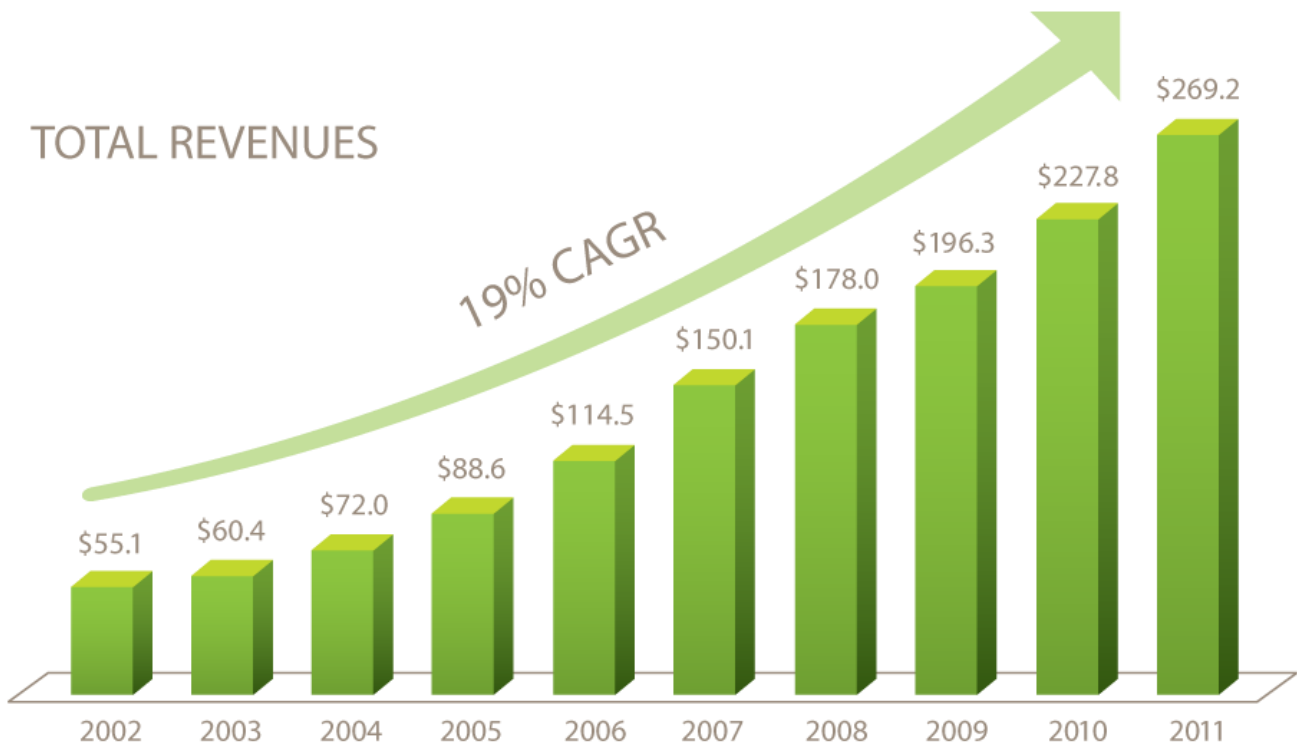


10-YEAR FINANCIAL PERFORMANCE

RECURRING REVENUES



TOTAL REVENUES



- Dollars are represented in millions.
- CAGR on both graphs represents Ultimate's 10-year Compounded Annual Growth Rate from 2002-2011 for Recurring Revenues and Total Revenues.

BUSINESS HIGHLIGHTS

- Ultimate added Succession Management to its suite of UltiPro cloud solutions for managing employees from recruitment through retirement. With UltiPro Succession Management, companies can engage their employees and managers in an ongoing, collaborative process for developing succession plans. Employees can update their own talent profiles with detail on factors that influence succession readiness such as mobility preferences, languages, education, accomplishments, and competencies. Managers can use the information to identify talent gaps and prepare their reports for succession by developing succession plans for jobs, talent pools, or individuals while company leadership has a bird's-eye view of succession for strategic decision-making.
- In March 2011, we held our Ultimate Partner Forum, known as Connections and co-sponsored by Dell and IBM, and had the largest attendance in our history—820 attendees. Our customers, partners, and HR industry analysts came to share ideas, hear about Ultimate's future direction, and expand their peer networks. Ultimate's 2012 Connections conference is scheduled for March 27-30, 2012 in Las Vegas.
- A leading technology research, analysis, and advisory firm, Forrester Research, selected Ultimate as a Groundswell Award winner in October 2011. The Forrester Groundswell Awards recognize excellence in achieving business and organizational goals through innovation in social technology applications. Ultimate was a winner in the business-to-business "Embracing" category for its collaborative customer community called "Ideas." Ultimate launched the Ideas community to help its customers share information, interact, and provide direct feedback on UltiPro. Previous winners of the Forrester Groundswell Awards include Microsoft, IBM, Starbucks, and Salesforce.com.
- Ultimate won a SuperNova Award from Constellation Research in the advanced analytics category in November 2011. Ultimate's Director of Business Intelligence and his team worked collaboratively with an Ultimate customer to develop a predictive analytics tool that HR leaders can use to monitor and address retention risks proactively.
- Ultimate's customer support center was awarded Service Capability & Performance (SCP) certification for best practices for the 13th consecutive year. The SCP Standards represent the global benchmark for service excellence and are recognized by leading technology companies around the world.
- In January 2012, Ultimate was ranked #25 on FORTUNE's "100 Best Companies to Work For" list, having applied for consideration for the first time. Ultimate is *the only* human capital management provider on the 2012 list and *the highest ranked* cloud vendor on the list. Ultimate was previously recognized twice as the #1 medium-sized company to work for in America by The Great Place to Work Institute.

SHAREHOLDERS' MEETING

DATE:

Friday, May 18, 2012
10 a.m. EDT

LOCATION:

Ultimate Software
2000 Ultimate Way
Weston, FL 33326

The annual meeting of shareholders will be held on May 18, 2012, at 10:00 a.m. EDT at Ultimate's headquarters, 2000 Ultimate Way, Weston, Florida 33326. Formal notice will be sent to shareholders of record as of March 22, 2012.

COMPANY PROFILE

Ultimate is a leading cloud provider of people management solutions. Built on the belief that people are the most important ingredient of any business, Ultimate's award-winning UltiPro delivers HR, payroll, and talent management solutions that seamlessly connect people with the information and resources they need to work more effectively. Founded in 1990, the company is headquartered in Weston, Florida, and has more than 1,400 professionals focused on developing the highest quality solutions and services. In 2012, Ultimate was ranked #25 on FORTUNE'S "100 Best Companies to Work For" list. Ultimate has more than 2,300 customers with employees in 115 countries, including Adobe Systems Incorporated, The Container Store, Culligan International, Major League Baseball, The New York Yankees Baseball Team, and Ruth's Chris Steak House. More information on Ultimate's products and services for people management can be found at www.ultimatesoftware.com.

UltiPro is a registered trademark of The Ultimate Software Group, Inc. All other trademarks referenced are the property of their respective owners.

DIRECTORS & OFFICERS

BOARD OF DIRECTORS

Scott Scherr

Chairman, Chief Executive Officer, and
Founder
Ultimate

Marc D. Scherr

Vice Chairman and Chief Operating Officer
Ultimate

James A. FitzPatrick, Jr.

Partner
Dewey & LeBoeuf LLP

LeRoy A. Vander Putten

Former Executive Chairman
The Insurance Center, Inc.

Robert A. Yanover

Former President
Computer Leasing Corporation

Rick A. Wilber

President
Lynn's Hallmark Cards

Al Leiter

President
Leiter's Landing

EXECUTIVE OFFICERS

Scott Scherr

Chairman, Chief Executive Officer, and
Founder

Mitchell K. Dauerman

Executive Vice President, Chief Financial
Officer, and Treasurer

Marc D. Scherr

Vice Chairman and Chief Operating Officer

INVESTOR RELATIONS INFORMATION

ANNUAL REPORT AND FORM 10-K

Ultimate's 2011 Annual Report, including the 2011 Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2011, is available electronically as a PDF on our Web site at www.ultimatesoftware.com. Printed copies of the 2011 Form 10-K are available without charge upon request to: Ultimate, Investor Relations Department, 2000 Ultimate Way, Weston, Florida 33326.

Independent Registered Public Accounting Firm

KPMG LLP
Miami, Florida

Investor Relations

For additional information about Ultimate,
contact Mitchell K. Dauerman, 954.331.7369.

Legal Counsel

Dewey & LeBoeuf LLP
New York, New York

Stock Trading

Ultimate's common stock is traded on the
Nasdaq National Market under the symbol ULTI.

Transfer Agent and Registrar

Computershare Trust Company, N.A.
P.O. Box 43078
Providence, Rhode Island 02940-3078
877.282.1168
www.computershare.com

Company Address

Ultimate
2000 Ultimate Way
Weston, Florida 33326
800.432.1729 or 954.331.7000
www.ultimatesoftware.com

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

or

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 0-24347

The Ultimate Software Group, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

65-0694077
*(I.R.S. Employer
Identification No.)*

**2000 Ultimate Way,
Weston, FL**
(Address of principal executive offices)

33326
(Zip Code)

Registrant's telephone number, including area code:
(954) 331-7000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:

Name of Each Exchange on which Registered:

Common Stock, par value \$.01 per share

The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of Common Stock, par value \$.01 per share, held by non-affiliates of the Registrant, based upon the closing sale price of such shares on the NASDAQ Global Select Market on June 30, 2011 was approximately \$1.4 billion.

As of February 15, 2012, there were 26,381,763 shares of the Registrant's Common Stock, par value \$.01, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2012 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

THE ULTIMATE SOFTWARE GROUP, INC.

INDEX

	<u>Page(s)</u>
Forward-Looking Statements	1
PART I	
Item 1. Business	1
Item 1A. Risk Factors	14
Item 1B. Unresolved Staff Comments	23
Item 2. Properties	24
Item 3. Legal Proceedings	25
Item 4. Mine Safety Disclosures	25
PART II	
Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities	25
Item 6. Selected Financial Data	28
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	29
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	44
Item 8. Financial Statements and Supplementary Data	45
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	76
Item 9A. Controls and Procedures	76
Item 9B. Other Information	80
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	80
Item 11. Executive Compensation	84
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	84
Item 13. Certain Relationships and Related Transactions, and Director Independence	84
Item 14. Principal Accountant Fees and Services	85
PART IV	
Item 15. Exhibits and Financial Statement Schedules	86
Signatures	91

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (this “Form 10-K”) of The Ultimate Software Group, Inc. and subsidiaries (“Ultimate,” “we,” “us” or “our”) may contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements represent our expectations or beliefs, including, but not limited to, our expectations concerning our operations and financial performance and condition. Words such as “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to certain risks and uncertainties that are difficult to predict. Ultimate’s actual results could differ materially from those contained in the forward-looking statements due to risks and uncertainties associated with fluctuations in our quarterly operating results, concentration of our product offerings, development risks involved with new products and technologies, competition, our contractual relationships with third parties, contract renewals with business partners, compliance by our customers with the terms of their contracts with us, and other factors disclosed in Ultimate’s filings with the Securities and Exchange Commission. Other factors that may cause such differences include, but are not limited to, those discussed in this Form 10-K, including the risk factors set forth in Item 1A. Ultimate undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

UltiPro® and its related design are registered trademarks of Ultimate in the United States. This Form 10-K also includes names, trademarks, service marks and registered trademarks and service marks of companies other than Ultimate.

PART I

Item 1. Business

Overview

The Ultimate Software Group, Inc. and subsidiaries (“Ultimate,” “we,” “us” or “our”) is a leading provider of unified human capital management (“HCM”) software-as-a-service (“SaaS”) solutions, also known as “cloud” solutions, for global businesses.

Ultimate’s UltiPro software (“UltiPro”) is a comprehensive SaaS-or cloud-based solution delivered primarily to organizations based in the United States and Canada and designed to deliver the functionality businesses need to manage the complete employment life cycle from recruitment to retirement. The solution includes feature sets for talent acquisition and onboarding, human resources (“HR”) management and compliance, benefits management and online enrollment, payroll, performance management, salary planning and budgeting for compensation management, succession management, reporting and analytical decision-making tools, and time and attendance. UltiPro has role-based self-service capabilities for executives, managers, administrators, and employees whether they are in or out of the office, including an UltiPro application for use on mobile devices such as the iPhone and iPad.

We believe that UltiPro helps customers streamline HR and payroll processes to significantly reduce administrative and operational costs, while also empowering them to manage the talent in their workforce more strategically. UltiPro enables its customers to analyze workforce trends for better decision making, find critical information quickly and perform routine business activities efficiently.

UltiPro is marketed as two solution suites based on company size. UltiPro Enterprise (“Enterprise”) is designed to address the needs of companies with 1,000 or more employees. UltiPro Workplace (“Workplace”) is designed for companies with fewer than 1,000 employees. UltiPro Workplace provides medium-sized and smaller companies with nearly all the features that larger Enterprise companies have with UltiPro, plus a bundled services package. Since many companies in this market do not have information technology staff on their premises to help with system deployment or management issues, we created UltiPro Workplace’s bundled services package to give these customers a high degree of convenience by handling system setup, business rules, and other situations for customers “behind the scenes.”

Our SaaS offering of UltiPro (the “SaaS Offering”) provides Web-based access to comprehensive HCM functionality for organizations that want to simplify delivery and support of their business applications. We have found that SaaS is attractive to companies that want to focus on their core business competencies to increase sales and profits. Through SaaS, we supply and manage the hardware, infrastructure, ongoing maintenance and backup services for our customers. Customer systems are managed at three data centers; one located near Miami, Florida, one near Atlanta, Georgia, and another near Toronto, Canada. All data centers are owned and operated by independent third parties.

As part of our UltiPro HCM solution, which includes HR, payroll and talent management feature sets, we provide implementation and training services to our customers as well as support services, which have been certified by Services Strategies using the Service Capability and Performance (“SCP”) Standards, certification program for thirteen consecutive annual evaluations. UltiPro leverages the Microsoft Corporation (“Microsoft”) technology platform, which is recognized in the industry as a cost-effective, reliable and scalable platform.

UltiPro is marketed primarily through our Enterprise and Workplace direct sales teams. Ultimate had more than 2,300 customers as of the end of 2011. Based on January 2012 market data from Hoover’s/Dun & Bradstreet, we estimate our approximate market share to be 10 percent for companies with more than 1,000 employees and 3 percent in the under 1,000 employee space.

Ultimate is a Delaware corporation formed in April 1996 to assume the business and operations of The Ultimate Software Group, Ltd. (the “Partnership”), a limited partnership founded in 1990. During August 2006, Ultimate formed a wholly-owned subsidiary, The Ultimate Software Group of Canada, Inc. (“Ultimate Canada”), to accommodate its operations in Canada. In October 2006, Ultimate acquired 100% of the common stock of a United Kingdom (“UK”) company and its wholly-owned U.S. subsidiary, known as The Ultimate Software Group UK Limited. The Ultimate Software Group UK Limited was discontinued and liquidated in 2010. See Note 4 in the Notes to the Consolidated Financial Statements. There were no material assets or revenues in Canada as of or for the year ended December 31, 2011. Ultimate’s headquarters is located at 2000 Ultimate Way, Weston, Florida 33326 and its telephone number is (954) 331-7000.

Features of UltiPro

UltiPro is a comprehensive SaaS-or cloud-based solution designed to deliver the functionality businesses need to manage the complete employment life cycle from recruitment to retirement. The solution includes feature sets for talent acquisition and onboarding, HR management and compliance, benefits management and online enrollment, payroll, performance management, salary planning and budgeting for compensation management, succession management, reporting and analytical decision-making tools, time and attendance, and role-based self-service capabilities for executives, managers, administrators, and employees whether they are in or out of the office. UltiPro offers the following features to its customers:

Role-Based Internet Access to Functionality. UltiPro provides Web access to workforce-related business functions, company communications, and reporting for everyone in our customer’s organization, not just the HR department. The access and specific functionality are based upon our customer’s process requirements and the individual user’s role. We believe that UltiPro’s employee-facing Web applications can increase administrative efficiencies by providing immediate access to reporting, staff management processes and business intelligence for executives, and can reduce operating costs by eliminating the need for organizations to print and distribute paper communications, handbooks, forms, and paychecks. Ultimate also provides an UltiPro application for use on an iPhone or iPad to allow rapid communication among traveling executives and employees. Using their iPhones or iPads, managers can approve or deny daily workflow transactions—such as salary changes and paid time off—and all employees can quickly access their company’s employee directory to look up contact information or employee photos.

Feature-Rich, Highly Configurable, Built-in Functionality. Based upon UltiPro’s built-in and unified functionality and its ability to be configured extensively to meet the customer’s specific business needs, Ultimate has found that UltiPro minimizes the need for its customers to make extensive customizations or changes to source code. UltiPro facilitates streamlined management of the total employment cycle, enables organizations to minimize the time invested in burdensome HR/payroll administrative activities, and provides strategic HR and talent management reports and tools.

Flexible, Rapid System Setup and Configuration. UltiPro has been designed to minimize the time and effort required to set up and configure the system to address individual company needs. UltiPro delivers an extensive amount of functionality “out-of-the-box” that can be configured to align with our customers’ various business models, so that few customizations are required by the typical customer. Ultimate has a proven track record for activating UltiPro rapidly through SaaS.

Reduced Total Cost of Ownership. We believe that the UltiPro solution provides cost saving opportunities for our customers and that UltiPro is competitively priced. In addition, we believe that our current practices in activating the UltiPro solution result in cost savings for customers when compared with implementations of other similar solutions in the industry. The UltiPro customer may also reduce the administrative and information technology (“IT”) support costs associated with the organization’s HR, benefits and payroll functions over time. Administrative costs can be further reduced by providing an organization with greater access to information and control over reporting.

Leveraging of Leading Technologies. Ultimate has consistently focused on identifying leading technologies and integrating them into its products. The primary characteristics of Ultimate’s technology are:

- Leading-edge service-oriented-architecture technology platform built using the Microsoft.NET 4.0 framework.
- Multi-tenancy (multiple companies can reside on one server). The multi-tenant model allows each application component to run on a separate farm, or cluster, of load-balanced servers while still providing customer data isolation that customers demand. Ultimate’s multi-tenant site registry functions similar to “yellow pages” to manage tenant location and isolation within the site.
- Connecting UltiPro via Web services (a set of platform-neutral and vendor-independent protocols that enable application interactions over the Internet using Extensible Markup Language, or XML, and other Web-based technologies). Through Web services, UltiPro interfaces with other applications and data services easily and securely.

Rich End-User Experience, Ease of Use and Navigation. Ultimate designs its products to be user-friendly and to simplify the complexities of managing employees and complying with government regulations in the HR, payroll, and talent management areas. UltiPro uses familiar Internet navigation techniques, which we believe make its solution convenient and easy to use. While traveling or out of the office, our customer's executives, managers, administrators and employees can manage payroll and employee functions and run reports by accessing UltiPro over the Internet or find answers to key routine questions by using an UltiPro application on their iPhone or iPad.

Comprehensive Customer Services and Industry-Specific Expertise. Ultimate believes it provides the highest quality customer services, SaaS services, professional setup and implementation services, knowledge management (or training) services and ongoing product and customer support services. Ultimate's customer support center has received the SCP Certification for the thirteenth consecutive year. The SCP program was created by the Service & Support Professionals Association ("SSPA") and a consortium of information technology companies to create a recognized quality certification for support centers. SCP Certification quantifies the effectiveness of customer support based upon relevant performance standards and represents best practices within the technology support industry according to the SSPA. Recognizing the importance of issuing timely updates that reflect changes in tax and other regulatory laws, Ultimate employs a dedicated research team to track jurisdictional tax changes for more than 13,000 tax codes included in UltiPro as well as changes in other employee-related regulations.

UltiPro—Core Functionality and Optional Features

UltiPro's core functionality includes, but is not limited to, a set of Web-based features for HR management, benefits administration, payroll administration, role-based Internet access to functions, and business intelligence along with system administration tools and Enterprise Integration Tools that give customers the ability to interface with third-party applications and providers.

In addition to UltiPro's core HCM functionality, our customers have the option to purchase a number of additional features on a per-employee-per-month ("PEPM") basis, which are available to enhance the functionality of UltiPro's core features and which are based on the particular business needs of the customers. These optional UltiPro features currently include (i) the talent management suite of products (recruitment, onboarding, performance management, salary planning and budgeting for compensation management, and employee relations tools for managing disciplinary actions, grievances, and succession management); (ii) benefits enrollment; (iii) time, attendance and scheduling; (iv) time management; (v) payment services (formerly referred to as "tax filing"); (vi) wage attachments; and (vii) other optional features (collectively, "Optional Features"), which are described below.

Differences between features available to UltiPro Enterprise and UltiPro Workplace are specified below. Unless otherwise specified, features are included in both the Enterprise and Workplace offerings.

UltiPro's Core HR/Payroll Functionality

UltiPro's core HR/payroll functionality includes, but is not limited to, the following:

UltiPro's Web Center. UltiPro can act as the gateway to business activities for a company's executives, management team, HR/payroll staff, administrators, and employees. Employees of customers can access UltiPro from multiple Web browsers, including Microsoft Internet Explorer and Mozilla Firefox, view information and perform tasks in a language of their individual choice (most commonly English, Spanish, or French), set their personal preferences for the order and placement of home-page content, and set up access to any available page in one click. Ultimate believes that UltiPro allows its customers to improve service to their employees through better communications and to save time because

managers and administrators can complete hundreds of common employee-related tasks, including administering benefits, managing staff and accessing reporting and business intelligence in real time, from one central location. UltiPro also enables companies to provide on-demand access to company and personal information for their employees over the Internet.

Human Resources Management. UltiPro tracks HR-related information including employment history, performance, job and salary information, career development, and health and wellness programs. In addition, UltiPro facilitates the recording and tracking of key information for government compliance and reporting, including under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Health Insurance Portability & Accountability Act (HIPAA), regulations implemented by the Occupational Safety & Health Administration (OSHA), workers' compensation regulations, the Family Medical Leave Act (FMLA), and Equal Employment Opportunity (EEO) laws. UltiPro also enables compliance with HIPAA confidentiality requirements for protecting sensitive data such as employee social security numbers. UltiPro also allows customers to track HR information of employees working outside the U.S. and Canada, providing a global view of their workforces and enabling consolidation of global HR/employee information into one central system for HR reporting and analytics by individual country or the entire company as a whole.

Benefits Administration. UltiPro allows companies to automate the matching of the health, welfare, dental, vision, and other benefits that their organizations offer employees, and to set up and administer benefit plans and employee and employer contributions, and it enables employees to check benefit options and coverage online over the Internet. UltiPro eliminates the need for duplicate rules, duplicate data entry, and reconciliation reporting because it stores details for deductions and benefit plans in one common table. This includes rules for coverage, premium and employer match computations, and eligibility and participation determinations. UltiPro also allows companies to maintain and administer paid time off benefits, such as vacation (including calculating benefit accrual amounts), track leave time taken, and facilitate the response to employee leave requests.

Payroll Administration. UltiPro's payroll engine handles hundreds of payroll-related computations intended to minimize the customer's need for side calculations or additional programming. For example, UltiPro delivers complex wage calculations such as average pay rates for overtime calculations, shift premiums, garnishments and levy calculations. With UltiPro, a company's central payroll department, remote offices or multiple divisions can process payroll with specific processing steps based on the exact needs of the organization, and can manage this process through an easy-to-use dashboard of payroll tasks and status, over the Internet.

Role-Based Self-Service. Authorized managers have self-service access to staff information such as salary, compensation history, key dates and emergency contacts, with reporting and workforce analysis tools to facilitate decision-making. A customer's managers can view and update staff information, manage department activities, post job openings, leverage recruiting and hiring tools, and perform queries on workforce data. UltiPro's document management features can be used to house and categorize employee-related documents such as drivers' licenses, consent forms, and completed Forms I-9 with required identification. Administrators and managers have the ability to attach Microsoft Word documents, PDF files, JPEG files, spreadsheets, or any other file types supported by Microsoft Internet Explorer to employee files. The documents can be grouped and sorted to individual requirements, as necessary.

Employees also may be given immediate security-protected access to view their own paycheck details and benefits summaries, frequently used forms and company information. They can also update personal information such as address, phone number, emergency contacts and skills; change preferences such as direct deposit accounts and benefits selections; make routine requests such as asking for vacation time; and enroll in training.

UltiPro Business Intelligence. UltiPro Business Intelligence uses a business intelligence platform from IBM Cognos Corporation, a third-party provider, for HR, payroll, and talent management reporting and analysis. Accessed via the Web, UltiPro Business Intelligence gives users the ability to access data across the UltiPro solution – from HR, payroll to benefits administration and enrollment, compensation, talent acquisition and onboarding, talent management, compensation, compliance, year-end data, and more – and enables them to create, modify, and distribute workforce-related reports and notifications. UltiPro includes a pre-configured data mapping library and pre-authored reports and analytics. Controlled by role-based security, everyone in a customer’s organization– from line managers to executives – can have immediate access to key workforce metrics, and they can personalize their own user experience to show the reports they want to see and how they want to see them. We believe that UltiPro Business Intelligence gives its customers significant strategic value for managing their workforce-related functions and saves them labor time and money by eliminating or reducing the need for internal technology people to generate hundreds of individual reports for disparate executive and management needs.

Other Key Features. UltiPro includes system administration tools such as configuration options, role-based security, built-in conditional workflow, flexible business rules, and an easy-to-use content management tool. Built-in conditional workflow enables users to authorize HR/payroll staff, managers, or supervisors to make updates on the Web through more than 125 pre-defined, highly configurable workflow processes to expedite business activities such as hiring an employee or inputting a salary increase. System administration is designed for the non-technical user to administer UltiPro’s role-based security, built-in conditional workflow, and system business rules, as well as to enable system administrators to post company communications, link to external Web sites and tailor pages to reflect the customer’s own company user experience requirements. Enterprise Integration Tools are also included to provide the ability to interface with third-party applications and providers such as general ledger, payment services, time clocks, banks, 401(k) and benefits providers, check printing services and unemployment management services.

UltiPro’s Optional Features

UltiPro Talent Management is a suite of add-on products comprised of Recruitment, Onboarding, Performance Management, Salary Planning and Budgeting, and Succession Management.

i) Recruitment. UltiPro Recruitment delivers a “one-stop” solution for companies to recruit and hire the most qualified candidates. By automating the entire recruiting and applicant tracking process, UltiPro Recruitment enables hiring managers, recruiters, and HR staff to track and manage all recruitment tasks such as posting open jobs, reviewing resumes, screening candidates, and scheduling interviews through convenient Web access.

ii) Onboarding. UltiPro Onboarding is a comprehensive Web-based tool that provides employers the ability to automate the process of bringing a new employee into an organization and speed time to productivity. Employees can be given a “welcome” package online as part of a step-by-step process that is built into UltiPro Onboarding which is easily configurable. It includes such activities as obtaining required government and procedural paperwork, including electronic signatures and document storage; provisioning necessary equipment and job-specific tools such as office location, computer equipment, and uniforms; ensuring enrollment in necessary training programs; and instilling the employer’s core values and business objectives.

iii) Performance Management. UltiPro Performance Management helps companies maximize talent development and improve employee satisfaction by automating and enhancing the performance process and using competency-based employee development. UltiPro Performance

Management streamlines the processes of evaluating performance and completing performance reviews, making competency assessments, identifying top performers for succession planning, and tracking and executing coaching, training and development plans.

iv) Salary Planning and Budgeting. UltiPro Salary Planning and Budgeting facilitates salary increase administration by delivering the tools and information managers need to make effective decisions regarding future compensation for individuals and/or an entire team. Highly configurable, UltiPro Salary Planning and Budgeting makes it easy for companies to tie the salary-increase process and business rules into the solution. Working online, managers can rapidly review their salary budgets and guidelines, and determine the best way to allocate pay increases to their employees within their approved budget. Once managers decide on the allocations, they can submit pay increases for processing with no manual calculations or spreadsheets required.

v) Succession Management. With UltiPro Succession Management, organizations can involve company leadership, managers, and individuals in an ongoing, collaborative process of succession planning. Employees can manage their own talent profiles—updating factors that influence succession readiness, such as mobility preferences, languages, education, accomplishments, and competencies—to ensure that leadership has a deeper understanding of the talent landscape at their organization. Visible to employees and managers, UltiPro’s employee “talent card” provides a consolidated view of multiple succession-readiness factors, which then can be used in both decision-making and career development processes.

Other Optional Features include, but are not limited to, the following products, which are supplemental to UltiPro’s core HR/payroll functionality:

Benefits Enrollment. With UltiPro Benefits Enrollment, employees can review their benefit choices and make selections on the Web during defined open enrollment periods. Benefits administrators can set up enrollment sessions over the Web and use tools to monitor the enrollment progress. UltiPro Benefits Enrollment also guides employees through all of the benefit and personal information changes necessary as a result of a life event such as getting married, having a baby or moving. UltiPro also facilitates the electronic feeds required for insurance carriers and plan administrators, reducing the need for manual reporting of employee census information, participant coverage, and billing reconciliation.

Time, Attendance, and Scheduling (available to prospective customers in the Enterprise market). Through a strategic partnership, Ultimate has the right to market and distribute an independent third party’s time and labor management product as part of the UltiPro solution. Ultimate has branded this product as UltiPro Time and Attendance, marketing the components as UltiPro Time and Attendance, UltiPro Leave Management, and UltiPro Workforce Scheduling (collectively, “UTA”). Ultimate is the single-source contact for customer implementations and ongoing solution support for UTA. UTA is Web-based and integrated with UltiPro’s payroll, HR, and benefits functionality. UltiPro Time and Attendance tracks time and attendance labor metrics and supports a variety of time-capture mechanisms. UltiPro Leave Management includes all of the functionality required to effectively track and manage employee leave. UltiPro Workforce Scheduling features industry-specific employee scheduling options to ensure that organizations in different environments deploy employees in an efficient and legislatively compliant manner.

Time Management (designed for the Workplace market). UltiPro Time Management delivers the functionality and flexibility needed to manage employee time and attendance efficiently and provides Web access to real-time employee time and labor information. UltiPro Time Management provides companies with the tools to proactively prevent issues that negatively impact business performance, such as employee coverage gaps, labor law violations, and excess labor spending. Fully integrated scheduling, time and

attendance, and leave management capabilities reduce payroll expenditures and streamline payroll and workforce management processes.

Payment Services. Ultimate has the right to market and distribute an independent third party's tax filing solution that Ultimate has branded UltiPro Payment Services ("UltiPro Payment Services"). With this solution, companies are able to meet all Federal, state, and local payroll tax filing obligations quickly and easily. The UltiPro solution saves payroll staff time by eliminating the administrative burdens associated with tax filing. UltiPro Payment Services enables businesses to deposit federal, state, and local tax payments for more than 13,000 tax codes via electronic funds transfer or check and automates filing for monthly, quarterly, and annual tax returns.

Wage Attachments. For organizations required to process third-party payments on behalf of their employees for items such as child support, tax levies, and creditor garnishments, UltiPro Wage Attachments provides the means to effectively streamline and manage the payment process. UltiPro Wage Attachments eliminates the burden associated with payments to third parties by using information entered and calculated in UltiPro, so there is no need to manage payment processing or analyze varying disbursement schedules for multiple jurisdictions. Ultimate ensures that each third-party payment is made according to the designated payment method and reaches its required destination within the assigned timeframe.

Other Optional Features. Ultimate offers a number of additional HR and payroll-related services to extend the value of UltiPro, including test environment services, W-2 print services, pre-employment screening, paycheck modeling, pay cards, unemployment tax management, employment verification services, employee assistance, health and wellness, and work/life balance programs. In addition, Ultimate offers UltiPro Federated Single Sign-On for standards-based identity management by leveraging Microsoft's Active Directory Federated Services infrastructure. The solution helps improve and simplify data security by enabling individuals to use a single login credential (such as a network login) to seamlessly access UltiPro over the Internet.

Technology

Ultimate seeks to provide its clients with optimum performance, user experience, advanced functionality, and ease of scalability and access to information through the use of leading Internet-standard technologies. The UltiPro solution was designed to leverage cutting-edge technologies such as Web 2.0, social software, XML standards, and Web services that use open standards to provide customers with a cost-effective platform for performing critical business functions rapidly over the Web and allowing different systems to communicate with one another.

The use of Microsoft technology helps Ultimate deliver what it believes to be a highly deployable and manageable payroll and talent management solution that includes the following key technological features:

Microsoft.NET framework, Web 2.0 Features, and Social Networking Integration. The newest version of UltiPro, built on the .NET development platform, allows UltiPro to leverage a contemporary Web framework that provides a common, reusable page foundation for a consistent user experience. The .NET framework also enables Ultimate to develop and release enhanced features more rapidly. The latest version of UltiPro also takes advantage of Web 2.0 technologies for increased user interactivity, such as "sticky" personal user preferences, and social networking integration that provides value for human capital management in areas such as recruitment and mentoring. For example, UltiPro on the .NET platform includes social networking integration to sites such as "LinkedIn," where candidates for open positions can

provide a link to their professional profile and other details relevant to job applications, enabling HR and hiring managers to more quickly identify qualified candidates.

Internet-Based Technologies and Integration. Ultimate supports cutting-edge Web technologies and Internet/extranet connectivity to increase access to and usability of its applications. Ultimate uses Web services architecture that allows business logic to be called and executed over standard network protocols, such as HTTP or TCP/IP. UltiPro has an open architecture that supports open integration standards, including real-time messaging through Web services. UltiPro's Web services architecture is scalable to adapt to the business needs of companies of any size. The solution includes enterprise integration tools that enable customers to exchange data with third-party providers via imports, exports or Web services.

Application Framework. Ultimate has designed certain aspects of its system using a multi-tiered architecture in order to enhance the system's speed, flexibility, scalability and maintainability. When an application's logic resides only on a client workstation, a user's ability to process high volume data transactions is limited. When the logic resides only on a server, the user's interactive capabilities are reduced. To overcome such limitations, Ultimate built more separation into the application design. The UltiPro application consists of several core components in a decoupled architecture that leverages Microsoft technology. UltiPro's multi-layered architecture, including an operating system layer, business logic layer, presentation layer and user interface layer, makes it easier to update and maintain UltiPro, as well as integrate UltiPro with other enterprise systems. Ultimate believes that UltiPro's application framework provides a highly extensible set of services that can scale depending on the customer's business size. In addition, UltiPro was built using a data-driven, object-oriented application framework that enhances the development and usability of the solution. Object-oriented programming features code reusability and visual form/object inheritance, which decrease the time and cost of developing and fully implementing a new system. With object-oriented programming, system updates do not overwrite prior customizations to the system because custom changes are sub-classed objects that reside "outside" the core program.

Business Intelligence Tools. In addition to providing an extensive library of standard reports that offer flexibility and ease of use, Ultimate extends what users can do with employee data by embedding business intelligence tools from IBM Cognos Corporation, a third-party provider. In addition to offering sophisticated data query and report authoring, these tools enable users to apply on-line analytical processing to multidimensional data cubes, allowing users to explore data on employees graphically and statistically from diverse angles. Ultimate maintains a link between Cognos' report catalog and UltiPro's data dictionary, eliminating the necessity for users to create and maintain ad hoc reporting catalogs. In addition, for security purposes and ease of use, Ultimate has unified security for the data elements and provided single sign-on for users. A Cognos Web Package is delivered to UltiPro customers to allow users to access reports and conduct data queries from a Web browser.

SaaS Offering

Ultimate's SaaS Offering provides on-line access to comprehensive HCM functionality for organizations that need to simplify the IT support requirements of their business applications. Through the SaaS Offering, Ultimate provides the hardware, infrastructure, ongoing maintenance and backup services for its customers at three data centers. Data centers located near Miami, Florida and Atlanta, Georgia, are owned and operated by Quality Technology Services ("QTS") and the data center located near Toronto, Canada is owned and operated by Verizon Canada Ltd. ("Verizon").

Ultimate's use of the data centers located near Miami, Florida and Atlanta, Georgia is governed by a Master Space Agreement dated June 1, 2009 with Quality Technology Services Miami, LLC ("QTS Miami") and a Master Space Agreement dated June 1, 2009 with Quality Technology Services Metro, LLC

("QTS Metro"), respectively (collectively, the "QTS Agreements"). Pursuant to the terms of the QTS Agreements, Ultimate may from time to time submit orders for the use of certain physical space within the data centers for hosting Ultimate's hardware equipment, as well as Internet connectivity services, security, power and generator back-up, environmental controls and access controls. Each of the QTS Agreements provides that any service order will automatically renew for successive renewal terms, unless either party notifies the other party in writing at least sixty days prior to the end of the then current term that there will be no such renewal. Furthermore, each of the QTS Agreements may be terminated at any time by either party thereto, if: (i) the non-terminating party breaches any material term of such QTS Agreement and fails to cure such breach within 10 days after receipt of written notice; (ii) the non-terminating party becomes the subject of a voluntary or involuntary proceeding relating to insolvency, bankruptcy, receivership, liquidation, or reorganization; or (iii) a court or other government authority having jurisdiction over the services prohibits the furnishing of services governed by such QTS Agreement.

Ultimate's use of the data center located near Toronto, Canada is governed by a General Service Agreement dated September 23, 2009 (the "Verizon Agreement") between Ultimate's wholly owned subsidiary Ultimate Canada and Verizon. Pursuant to the terms of the Verizon Agreement, Ultimate Canada has use of certain physical space within the data center for hosting Ultimate Canada's hardware equipment, as well as Internet connectivity services. The Verizon Agreement contains provisions relating to data security and access to the data center. Upon placing a service order, Ultimate Canada is guaranteed certain pricing terms and is committed to minimum usage levels for a period of at least 36 months from the service effective date. The Verizon Agreement will renew on a month-to-month basis unless either party gives at least sixty days written notice prior to the completion of the applicable term that there will be no such renewal. The Verizon Agreement provides that its term will end upon the expiration of the term of the last-executed service order. Ultimate has guaranteed the payment of all amounts due from Ultimate Canada to Verizon under the Verizon Agreement.

The SaaS Offering is designed to provide an appealing pricing structure to customers who prefer to minimize the initial cash outlay associated with typical capital expenditures. SaaS customers purchase the right to use UltiPro on an ongoing basis for a specific term in a shared or dedicated hosted environment and the arrangement can typically be renewed after its initial term has expired. In the shared environment, Ultimate provides an infrastructure with servers shared among many customers who use a Web browser to access the application software through the related data center. In the dedicated environment, the customer does not share servers with other customers but rather has its own set of servers. The pricing for the SaaS Offering, including both the hosting element as well as the right to use UltiPro, is on a PEPM basis.

Research and Development Activities

Ultimate incurs research and development expenses, consisting primarily of software development personnel costs, in the normal course of its business. Such research and development expenses are for enhancements to our existing products and for the development of new products. During 2011, 2010 and 2009, we spent \$51.4 million, \$42.2 million and \$38.2 million, respectively, on research and development activities including capitalized software. During 2011 and 2010, there were no research and development expenses capitalized. During 2009, \$0.1 million of research and development expenses were capitalized for UltiPro Onboarding, which became available for general release to our customers during the spring of 2009. In addition, in 2009, \$0.1 million of research and development expenses were capitalized for certain third-party costs related to UltiPro Time Management.

Customer Services

We believe that delivering quality customer services provides us with a significant opportunity to differentiate Ultimate in the marketplace and is critical to the quality of Ultimate's comprehensive service solution. Ultimate provides its customers services in two broad categories: (i) professional services and (ii) customer support services and product maintenance. Additionally, Ultimate provides hosting services as a part of our SaaS Offering. These services include, but are not limited to, purchasing and supporting hardware and system software; installing new versions of UltiPro; and backing up customer data.

Professional Services. Ultimate's professional services include implementation, customer relationship management and knowledge management (or training) services. Ultimate believes that its implementation consulting services are differentiated from those of other vendors by speed, predictability and completeness. Ultimate believes that its successful record with rapid system activation and implementations is due to its standardized methodology, long-tenured consultants, the large amount of delivered product functionality, and comprehensive conversion and integration tools.

Ultimate has an experienced team of functional and technical consultants that are dedicated to assisting customers with rapid deployments. In addition, Ultimate provides its customers with the opportunity to participate in formal training programs conducted by its knowledge management services team, as well as online and on-demand training. Training programs are designed to increase customers' ability to use the full functionality of the product, thereby maximizing the value of customers' investments. Courses are designed to align with the stages of implementation and to give attendees hands-on experience with UltiPro. Trainees learn such basics as how to enter new employee information, set up benefit plans and generate standard reports, as well as more complex processes such as defining company rules, configuring the system and creating custom reports. Ultimate maintains training facilities in Atlanta, Georgia; Schaumburg, Illinois; Dallas, Texas; and at its headquarters in Weston, Florida. In addition to offering classes at these facilities, we conduct Web-based training and on-site training at remote locations. After customers have processed their first live payroll using UltiPro (referred to as going "Live") and have been turned over to our customer support and maintenance program, we assign a customer relationship manager ("CRM") to the account to assist customers obtaining maximum value of the UltiPro solution, connect with other Ultimate users and advanced business analytics. The CRM team also focuses a large portion of its time on customer retention, which is an important aspect of Ultimate's long-term business model.

Customer Support and Maintenance. Ultimate offers comprehensive and on-going maintenance services and technical support. These services have historically been purchased by all of our customers, and Ultimate had a recurring revenue customer retention rate of 96% in 2011. Ultimate's customer support center has received the SCP Certification sponsored by the Service Strategies Corporation ("SSC") for the thirteenth consecutive year. This certification recognizes companies that "deliver exceptional service and support to their customers." Ultimate's customer support services include: software updates that reflect tax and other legislative changes; a named customer service representative; telephone support 24 hours a day, 7 days a week; unlimited access to Ultimate's employee tax center on the Web; seminars on year-end closing procedures; and periodic newswire emails. In addition, our customer support services team maintains a support Web site for our customers where customers can submit inquiries and service requests as well as search a knowledge base of information for instant answers to questions, holds an annual national user conference and arranges for Ultimate professionals to attend smaller, user-organized user group meetings on a routine basis throughout the United States.

Customers

As of December 31, 2011, Ultimate provided its UltiPro solutions to more than 2,300 customers. Ultimate's customers represent a wide variety of industries, including manufacturing, food services, sports, technology, finance, insurance, retail, real estate, transportation, communications, healthcare and other services. For each of the three years ended December 31, 2011, no customer accounted for more than 10% of total revenues.

Sales and Marketing

Ultimate markets and sells its products and services primarily through its direct sales force.

Ultimate's direct sales force includes business development vice presidents, directors and managers who have defined territories, typically geographic. The sales cycle begins with a sales lead generated through a national, corporate marketing campaign or a territory-based activity. In one or more on-site visits, phone-based sales calls, or Web demonstrations, sales managers work with application and technical sales consultants to analyze prospective client needs, demonstrate Ultimate's UltiPro solutions and, when required, respond to requests for proposals. The sale is finalized after customers complete their internal sign-off procedures and the terms of the contract are negotiated and signed.

With a sale of the SaaS Offering for both the Enterprise and Workplace markets, the agreement generally requires PEPM fees based on company size, to cover services which generally include implementation and training. Typical payment terms include a deposit at the time the contract is signed and ongoing PEPM payments on specific payment dates designated in the contract, usually tied to the Live date.

With a perpetual license sale (which we stopped offering to new customers as of April 1, 2009), the terms of our sales contract typically included a license agreement for the product, an annual maintenance agreement (which is subject to annual renewal typically after a 12-month period), per-day training rates and hourly charges for implementation services. Typical payment terms included a deposit at the time the contract was signed and additional payments on specific payment dates designated in the contract. Payment for implementation and training services under the contract was typically made as such services were provided.

Ultimate supports its sales force with a comprehensive marketing program that includes public relations, advertising, direct mail, trade shows, seminars and workshops, email marketing, and Web marketing. Working closely with the direct sales force, customers and strategic partners, the marketing team defines positioning strategies and develops a well-defined plan for implementing these strategies. Marketing services include market surveys and research, overall campaign management, creative development, demand generation, results analysis, and communications with field offices, customers and marketing partners.

Intellectual Property Rights

Ultimate's success is dependent, in part, on its ability to protect its proprietary technology. We rely on a combination of copyright, trademark and trade secret laws, as well as confidentiality agreements and licensing arrangements, to establish and protect our proprietary rights. We do not have any patents or patent applications pending.

Competition

The market for our products is highly competitive. Our products compete primarily on the basis of technology, delivered functionality, price/performance and service.

Ultimate's competitors in the Enterprise market include (i) large service bureaus, primarily Automatic Data Processing Inc. ("ADP") and, to a lesser extent, Ceridian; and (ii) companies, such as PeopleSoft/Oracle, Lawson, Kronos, and Workday that offer human resource management and payroll software products for use on mainframes, client/server environments and/or Web servers. In the Workplace market, Ultimate's competitors include payroll service providers, such as ADP, Ceridian and Paychex, that service companies on the smaller end of the mid-market.

Backlog

Backlog consists of our UltiPro SaaS solutions and sales of SaaS services on a stand-alone basis to customers who already own a perpetual license ("Base Hosting") under signed contracts for which the services have not yet been delivered. At December 31, 2011, Ultimate had backlog of \$148.8 million compared to \$110.5 million as of December 31, 2010. Ultimate expects to fill approximately \$136.3 million of the backlog during 2012. Ultimate does not believe that backlog is a meaningful indicator of sales that can be expected for any future period. There can be no assurance that backlog at any point in time will translate into revenue in any subsequent period.

Employees

As of December 31, 2011, Ultimate employed 1,328 persons. Ultimate believes that its relationships with employees are good, and that belief is validated by Ultimate's ranking of # 25 on FORTUNE's 2012 "Best Companies to Work For" list. Ultimate's history of good employee relationships is further validated by The Great Place to Work Institute's ranking of Ultimate as the #1 Best Place to Work in America among medium-sized companies for both 2009 and 2008 and # 3 in both 2007 and 2006. However, competition for qualified employees in Ultimate's industry is generally intense and the management of Ultimate believes that its future success will depend, in part, on its continued ability to attract, hire and retain qualified personnel.

Available Information

Ultimate's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and amendments to those reports and any registration statements, including but not limited to registration statements on Form S-3, are available free of charge on Ultimate's website at www.ultimatesoftware.com as soon as reasonably practicable after such reports are electronically filed with the Securities and Exchange Commission ("SEC"). Information contained on Ultimate's website is not part of this Form 10-K. You may record and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains the reports, proxy and information statements and other information regarding us that we file with the SEC. You can access the SEC's website at www.sec.gov.

Item 1A. Risk Factors

Ultimate operates in a rapidly changing and dynamic business environment that involves risk and uncertainty. The following discussion is a description of risks and uncertainties associated with our business that could cause, or contribute to causing, actual results to differ materially from expectations. These are not all of the risks we face. We may be adversely affected by risks not currently known or that we currently consider immaterial.

We may be adversely affected by substantial quarterly fluctuations in our revenues and operating results.

Our quarterly revenues and operating results have varied significantly in the past and are likely to vary substantially from quarter to quarter in the future. Our quarterly operating results may fluctuate as a result of a number of factors, including:

- Increased expenses from one quarter to another (especially as they relate to product development and sales and marketing);
- Spending patterns of our customers;
- Timing of our product releases;
- Increased competition;
- A drop in the near-term demand for our products, particularly in relation to professional services; and
- Announcements of new products by Ultimate or by our competitors.

We establish our expenditure levels based upon our expectations as to future revenues, which are comprised primarily of recurring revenues and services revenues. If revenue levels are below expectations, particularly services revenues which are more subject to variations between periods than recurring revenues, expenses can be disproportionately high in a particular period. For example, while sales production could be at our level of expectations, depending on the spending patterns of our customers including the timing in which they begin the implementation of UltiPro and the extent to which they use Ultimate's resources, the immediate reported total revenues could be lower than expected.

Our operating results for previous fiscal quarters are not necessarily indicative of our operating results for the full fiscal years or for any future periods. We believe that, due to the underlying factors for quarterly fluctuations, quarter-to-quarter comparisons of our operations are not necessarily meaningful and that such comparisons should not be relied upon as indications of future performance.

Due to the method of accounting for SaaS sales, a change in the period of the time from contract date to the Live date ("Time to Live") could negatively impact the amount of recurring revenues recognized in a reporting period.

Sales production, as it pertains to sales of SaaS units, is not reflected in recurring revenues and related variable costs in our consolidated statements of operations until the related customer goes Live. In our internal business model, we make certain assumptions, among other things, with respect to future sales production, revenue growth, variable costs, personnel costs and other operating expenses.

Our expectations for recurring revenue growth are typically established based on combinations of actual sales production (for those units that have been previously sold but have not yet gone Live) and expected future sales production, together with expectations as to the Time to Live periods. Estimates for Time to Live periods are usually based on (i) specific estimates (for certain backlog sales) provided by our field personnel, which estimates include factors and assumptions that are not within the control of our field personnel; and (ii) estimates for Time to Live periods for other SaaS sales (including backlog sales without specific estimates at that point in time), as well as expected sales, which are typically based on assumptions derived from our historical Time to Live periods. These estimates are adjusted periodically, and prospectively, based on management's assessment of Time to Live for backlog sales at that point in time. Factors that could impact the estimates for Time to Live periods include, but are not limited to, customer size (as larger customers may have longer implementations, tend to go Live on more UltiPro features and have more interface and integration requirements), and the number of complementary products sold in addition to UltiPro to a single customer, which in some cases involve customers' desire to go Live on all products at once, as compared to UltiPro first followed by complementary products.

To the extent there are changes in the underlying assumptions which drive Ultimate's expected revenue growth from SaaS sales, which include, but are not limited to, actual sales production achieved and changes in Time to Live periods, our recurring revenues, as reported in our consolidated statements of operations, could differ materially from levels we expected to achieve.

Our stock price has experienced high volatility, may continue to be volatile and may decline.

The trading price of our Common Stock has fluctuated widely in the past and may do so in the future, as a result of a number of factors, many of which are outside our control, such as:

- The volatility inherent in stock prices within the sector in which we conduct business;
- The volume of trading in our Common Stock, including sales upon exercise of outstanding stock options and upon the vesting of restricted stock and restricted stock units;
- Failure to achieve earnings expectations;
- Changes in our earnings estimates by analysts;
- Variations in our actual and anticipated operating results, including, but not limited to, prospective financial guidance provided by Ultimate to our investors and research analysts; and
- The announcement of a merger or acquisition.

Stock markets have experienced extreme price and volume fluctuations that have affected the market prices of many technology and computer software companies, particularly Internet-related companies. Such fluctuations have often been unrelated or disproportionate to the operating performance of these companies. These broad market fluctuations could adversely affect the market price of our Common Stock.

Further, securities class action litigation has often been brought against companies that experience periods of volatility in the market prices of their securities. Securities class action litigation could result in substantial costs and a diversion of our management's attention and resources.

We have incurred operating losses in the past and may incur operating losses in the future.

We have incurred operating losses in the past and we may incur operating losses in the future. As of December 31, 2011, our accumulated deficit was approximately \$48.0 million. If our future total revenues do not grow at a higher rate than that of our total expenses, our future operating results could be negatively impacted. Recent revenue growth should not be considered as indicative of our future

performance, particularly with respect to the recent economic environment and the potential impact on our revenue streams, as our subscription revenues from our SaaS Offering are largely impacted by the employee growth or contraction of our existing customer base and customer spending patterns have a significant impact on our services revenues with respect to both the timing and extent of our services they purchase.

Adverse changes in general economic or political conditions could adversely affect our operating results.

As our business has grown, we have become increasingly subject to the risks arising from adverse changes in domestic and global economic and political conditions. The state of the economy and the rate of employment, which deteriorated in the recent broad recession, may deteriorate more in the future. If weakness in the economies of the U.S. and other countries persists, many customers may delay or reduce technology purchases. This could result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies, increased price competition, customers purchasing fewer services or Optional Features than they have in the past, customers requesting longer payment terms, customers failing to pay amounts due and slower collections of accounts receivable. In addition, increased unemployment could result in significant decreases in our recurring revenues from our existing customer base as we price our ongoing recurring revenues on a PEPM basis. Any of these events would likely harm our business, results of operations, financial condition and cash flows from operations.

Our failure to maintain and increase acceptance of UltiPro, which accounts for substantially all of our revenues, could cause a significant decline in our revenues.

Currently, the UltiPro solutions, including the UltiPro core product and Optional Features and related services, account for substantially all of our revenues. Our future success depends on maintaining and increasing acceptance of UltiPro, particularly the SaaS Offering and related services. Any decrease in the demand for UltiPro would have a material adverse effect on our business, operating results and financial condition.

A systems failure or other service interruption at either of the data centers owned and managed by QTS or at the data center owned and managed by Verizon and used for our hosting services could result in substantial expense to us, loss of customers and claims by our customers for damages caused by any losses they incur.

We offer hosting services, which include hardware, infrastructure, ongoing maintenance and back-up services, to our customers in the United States at two data centers owned and operated by QTS—one near Atlanta, Georgia and another one near Miami, Florida. We also offer hosting services, which include hardware, infrastructure, ongoing maintenance and back-up services, to our customers with employees exclusively in Canada at a data center owned and operated by Verizon near Toronto, Canada.

These hosting services, which are provided as part of our SaaS Offering, must be able to be reliably operated on a 24 hours per day, seven days per week basis without interruption or data loss. The success of the SaaS Offering depends on our ability to protect the infrastructure, equipment and customer data files against damage from:

- Human error;
- Natural disasters;
- Power loss or telecommunication failures;

- Sabotage or other intentional acts of vandalism; and
- Unforeseen interruption or damages experienced in moving hardware to a new location.

We perform a daily backup of our customer data which is stored offsite of the data centers. In addition, QTS has implemented various activities comprising QualityTech's Business Continuity Planning & Disaster Recovery Program which includes risk assessment and business impact analysis, redundancy and crisis and emergency response procedures. Verizon also has a Business Continuity Program which handles business continuity planning, incident management and site emergency action planning. However, the occurrence of one of the above listed events or other unanticipated problems at any of the data centers could:

- Result in interruptions in the services we provide to our customers, during which time our customers may be unable to retrieve their data;
- Require us to spend substantial amounts of money replacing existing equipment and/or purchasing services from an alternative data center;
- Cause existing customers to cancel their contracts;
- Cause our customers to seek damages for losses incurred; or
- Make it more difficult for us to attract new customers.

If our direct sales force is not successful, we may be unable to achieve significant revenue growth in the future.

We sell our products and services primarily through a direct sales force. Our ability to achieve significant revenue growth in the future will depend upon the success of our direct sales force and our ability to adapt our sales efforts to address the evolving markets for our products. If our direct sales force does not perform as expected, our revenues could suffer.

Rapid technological changes and the introduction of new products and enhancements by new or existing competitors could undermine our current market position.

The market for our products is characterized by rapid technological advancements, changes in customer requirements, frequent new product introductions and enhancements and changing industry standards. The life cycles of our products are difficult to estimate. Rapid technological changes and the introduction of new products and enhancements by new or existing competitors could undermine our current market position. Our growth and future success will depend, in part, upon our ability to:

- Enhance our current products and introduce new products in order to keep pace with products offered by our competitors;
- Adapt to technological advancements and changing industry standards; and
- Expand the functionality of our products to address the increasingly sophisticated requirements of our customers.

We may not have sufficient resources to make the necessary investments and we may experience difficulties that could delay or prevent the successful development, introduction or marketing of new products or enhancements. In addition, our products or enhancements may not meet the increasingly sophisticated customer requirements of the marketplace or achieve market acceptance at the rate we expect, or at all. Any failure by us to anticipate or respond adequately to technological advancements, customer requirements and changing industry standards, or any significant delays in the development, introduction or availability of new products or enhancements, could undermine our current market position.

Our current and future competitors include companies with greater financial, technical and marketing resources than we have and if we are unable to compete successfully with other businesses in our industry or with in-house systems developed by potential customers, our profitability will be adversely affected.

Our future success will depend significantly upon our ability to increase our share of our target market, to maintain and increase our recurring revenues from new and existing customers and to sell additional products, product enhancements, maintenance and support services and training and consulting services to existing and new customers. The HCM market is intensely competitive. Our competitors include:

- Large service bureaus, primarily ADP and, to a lesser extent, Ceridian;
- A number of companies, such as PeopleSoft/Oracle, Lawson, Kronos, and Workday that offer HCM software products for use on mainframes, client/server environments and/or Web servers; and, in the UltiPro Workplace market, payroll service providers such as ADP, Ceridian and Paychex that service companies on the smaller end of the mid-market; and
- The internal HR/payroll departments of potential customers which use custom-written software.

Our competitors may develop products that are superior to our products or achieve greater market acceptance. Many of our competitors or potential competitors have significantly greater financial, technical and marketing resources than we do. As a result, they may be able to respond more quickly to new or emerging technologies and to changes in customer requirements, or to devote greater resources to the development, promotion and sale of their products than we can. We believe that existing competitors and new market entrants will attempt to develop in-house systems that will compete with our products. We may be unable to compete successfully against current or future competitors. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address the needs of our prospective customers. Accordingly, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share.

The loss of the services of one or more of our key employees could negatively affect our ability to implement our business strategy.

Our success depends to a significant extent upon a limited number of members of senior executive management and other key employees, including Scott Scherr, our Chairman of the Board of Directors, President and Chief Executive Officer. We do not have employment contracts with any of our key personnel. The loss of the services of one or more of our key employees could have a material adverse effect upon us. In addition, uncertainty created by turnover of our key employees could cause further turnover of our employees.

If we are not able to successfully recruit personnel, our revenues could be negatively affected.

Our ability to achieve significant revenue growth in the future will also depend on our success in recruiting, training and retaining sufficient sales, marketing, professional services, product development and other personnel.

The potential growth of our business and expansion of our customer base may place a significant strain on our management and operations and we may be unable to manage that growth and expansion successfully.

We expect to increase research and development, professional services, sales and marketing and administrative operations as and when appropriate to accommodate our growth plans. Accordingly, our future operating results will depend on the ability of our management and other key employees to continue to implement and improve our systems for operations, financial control and information management and to recruit, train, manage and retain our employee base. We cannot be certain that we will be able to manage any future growth successfully.

Our business relies heavily on the products of Microsoft, which may not always be compatible with our products, and we may be required to spend significant capital if businesses adopt alternative technologies that are incompatible with our products.

Our software products are designed primarily to operate with Microsoft technologies and our strategy requires that our products and technology be compatible with new developments in Microsoft technology. Although we believe that Microsoft technologies are currently widely utilized by businesses of all sizes, we cannot be certain that businesses will continue to adopt such technologies as anticipated, will migrate from older Microsoft technologies to newer Microsoft technologies or will not adopt alternative technologies that are incompatible with our products. As a result, we may be required to develop new products or improve our existing products to be compatible with different technologies that may be used by our customers. We cannot be certain we will be able to adapt our product to any technologies other than Microsoft's.

If our third-party software is not adequately maintained or updated, our sales could be materially adversely affected.

Our products utilize certain software of third-party software developers from whom we have either purchased a license or the underlying source code of such software. Although we believe that there are alternatives for these products, any significant interruption in the availability of such third-party software could have a material adverse impact on our sales unless and until we can replace the functionality provided by these products. Additionally, we are, to a certain extent, dependent upon such third parties' abilities to enhance their current products, to develop new products on a timely and cost-effective basis and to respond to emerging industry standards and other technological changes. We may be unable to replace the functionality provided by the third-party software currently offered in conjunction with our products in the event that such software becomes obsolete or incompatible with future versions of our products or is otherwise not adequately maintained or updated.

If we are unable to release annual or periodic updates on a timely basis to reflect changes in tax laws and regulations or other regulatory provisions applicable to our products, the market acceptance of our products may be adversely affected and our revenues could decline.

Our products are affected by changes in tax laws and regulations and generally must be updated annually or periodically to maintain their accuracy and competitiveness. We cannot be certain that we will be able to release these annual or periodic updates on a timely basis in the future. Failure to do so could have a material adverse effect on market acceptance of our products. In addition, significant changes in tax laws and regulations or other regulatory provisions applicable to our products could require us to make a significant investment in product modifications, which could result in significant unexpected costs to us.

If we are unable to protect our proprietary rights against unauthorized third-party copying or use, our revenues or our methods of doing business could be negatively impacted.

Our success is dependent, in part, on our ability to protect our proprietary rights. We rely on a combination of copyright, trademark and trade secret laws, as well as confidentiality agreements and licensing arrangements, to establish and protect our proprietary rights. We do not have any patents or patent applications pending, and existing copyright, trademark and trade secret laws afford only limited protection. As a result, we cannot be certain that we will be able to protect our proprietary rights against unauthorized third-party copying or use. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or reverse engineer aspects of our products or to obtain and use information that we regard as proprietary. In addition, others may develop products that perform comparably to our proprietary products. Policing the unauthorized use of our products is difficult.

Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trademarks, copyrights or trade secrets or to determine the validity and scope of the proprietary rights of others; such litigation may be expensive and divert the attention of management.

Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trademarks, copyrights or trade secrets or to determine the validity and scope of the proprietary rights of others. Any litigation could result in substantial costs and diversion of resources and management attention.

As is common in the software industry, from time to time we may become aware of third-party claims of infringement by our operations or products of third-party proprietary rights. While we are not currently aware of any such material claim, our software products may increasingly be subject to such claims as the number of products and competitors in our industry grows, as the functionality of products overlaps and as the issuance of software patents becomes increasingly common. Any such claims, with or without merit, can be time consuming and expensive to defend, cause product shipment delays or require us to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us, or at all.

Defects and errors in our software could affect market acceptance of our products.

Software products such as those offered by us may contain undetected errors or failures when first introduced or as new versions are released. Testing of our products is particularly challenging because it is difficult to simulate the wide variety of computing environments in which our customers may use these products. Despite extensive testing, from time to time we have discovered defects or errors in our products. Defects and errors may:

- Cause delays in product introductions and shipments;
- Result in increased costs and diversion of development resources;
- Require design modifications; or

- Decrease market acceptance of, or customer satisfaction with, our products.

Despite testing by us and by current and potential customers, errors may be found after commencement of commercial shipments, which may result in loss of or delay in market acceptance which could have a material adverse impact upon our business, operating results and financial condition.

Our software products may be vulnerable to break-ins and similar disruptive problems; addressing these issues may be expensive and require a significant amount of our resources.

We have included security features in our products that are intended to protect the privacy and integrity of customer data. Despite the existence of these security features, our software products may be vulnerable to break-ins and similar disruptive problems. Addressing these evolving security issues may be expensive and require a significant amount of our resources.

The sale and support of software products and the performance of related services by us entail the risk of product or service liability claims, which could significantly affect our financial results.

Customers use our products in connection with the preparation and filing of tax returns and other regulatory reports. If any of our products contain errors that produce inaccurate results upon which users rely, or cause users to misfile or fail to file required information, we could be subject to liability claims from users. Our SaaS and maintenance renewal agreements with our customers typically contain provisions intended to limit our exposure to such claims, but such provisions may not be effective in limiting our exposure. Contractual limitations we use may not be enforceable and may not provide us with adequate protection against product liability claims in certain jurisdictions. A successful claim for product or service liability brought against us could result in substantial cost to us and divert management's attention from our operations.

Anti-takeover provisions in our certificate of incorporation and by-laws and under our Amended and Restated Rights Agreement and Delaware law and our Change in Control Bonus Plans could substantially increase the cost to acquire us or prevent or delay a change in control and, as a result, negatively impact our stockholders and the price of our Common Stock.

We have taken a number of actions that could have the effect of discouraging a takeover attempt. For example, we have adopted an Amended and Restated Rights Agreement that would cause substantial dilution to a stockholder, and substantially increase the cost paid by a stockholder, who attempts to acquire us on terms not approved by our Board of Directors. This could prevent us from being acquired. Our Board of Directors is divided into three classes, each of whose members serve for a staggered three-year term. This may prevent a stockholder from gaining control of our Board of Directors quickly.

In addition, our certificate of incorporation grants our Board of Directors the authority to fix the rights, preferences and privileges of and issue up to 2,500,000 shares of preferred stock without stockholder approval. Although we have no present intention to issue shares of preferred stock, such an issuance could have the effect of making it more difficult and less attractive for a third-party to acquire a majority of our outstanding voting stock. Preferred stock may also have other rights, including economic rights senior to our Common Stock, which could have a material adverse effect on our stock price.

We are also subject to the anti-takeover provisions of Section 203 of Delaware General Corporation Law. This section provides that a corporation may not engage in any business combination with any interested stockholder (as defined in that section) during the three-year period following the time

that a stockholder became an interested stockholder. This provision could have the effect of delaying or preventing a change in control of our company.

We have adopted two Amended and Restated Change in Control Bonus Plans. One plan provides for the payment of cash amounts to our three named executive officers, Scott Scherr, Marc D. Scherr and Mitchell K. Dauerman, upon a “change in control” of Ultimate. The other plan provides for the payment of cash amounts in the event of a “change in control” to our employees, other than named executive officers, designated by the Compensation Committee of our Board of Directors. A “change in control” would occur if more than 50% of our Common Stock were acquired by a person or entity other than Ultimate or a subsidiary or employee benefit plan of ours. There are other conditions that could result in a change in control event such as a sale or transfer of all or substantially all of our assets or business. The aggregate amount of payment that may be made to all participants under the two Amended and Restated Change in Control Bonus Plans may be as much as 6% of the gross consideration received by us or our stockholders in a change in control transaction. The Change in Control Bonus Plans could substantially increase the cost to acquire us.

The growth of the international operations of our business subjects us to additional risks associated with foreign operations.

International operations are subject to risks associated with operating outside of the United States. During the fourth fiscal quarter of 2006, we began operating in Canada (through the formation of a wholly-owned Canadian subsidiary). During 2011, we continued to grow our operations in Canada. The financial impact of our international operations to our overall business has been insignificant to date. However, over time, our international operations may grow and increase their significance to our business. Sales to international customers subject us to a number of risks, including foreign currency fluctuations, unexpected changes in regulatory requirements for software, international economic and political instability, compliance with multiple, conflicting, and changing governmental laws and regulations, difficulty in staffing and managing foreign operations, international tax laws, potentially weaker protection for our intellectual property than in the United States, and difficulties in enforcing such rights abroad. If sales to any of our customers outside of the United States are delayed or cancelled because of any of the above factors, our revenue may be negatively impacted.

Our international operations also increase our exposure to international laws and regulations. If we are unable to comply with foreign laws and regulations, which are often complex and subject to variation and unexpected changes, we could incur unexpected costs and potential litigation.

If our goodwill or amortizable intangible assets become impaired we may be required to record a significant charge to earnings.

Under U.S. generally accepted accounting principles, we review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered in circumstances indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable include a reduction in our market capitalization (as a result of a decline in our stock price) to a level below our consolidated stockholders’ equity as of the applicable balance sheet date, declining future cash flows, and slower growth rates in our industry. We may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined, resulting in a negative impact on our results of operations.

Changes in, or interpretations of, accounting principles could result in unfavorable accounting changes.

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles and accompanying accounting pronouncements, implementation guidelines, and interpretations. Changes in these rules or their interpretation could significantly change our reported results and may even retroactively affect previously reported transactions. Our accounting principles that recently have been or may be affected by changes in accounting principles include, but are not limited to: software revenue recognition; accounting for income taxes; and accounting for business combinations and related goodwill.

Changes in, or interpretations of, tax rules and regulations may adversely affect our effective tax rates.

Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates could be unfavorably affected by changes in tax laws or the interpretation of tax laws, or by changes in the valuation of our deferred tax assets and liabilities. In addition, we are subject to the examination of our income tax returns by the Internal Revenue Service and other domestic and foreign tax authorities. We regularly assess the likelihood of outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that these potential examinations will not have an adverse effect on our operating results and financial position.

Privacy concerns could result in regulatory changes that may harm our business.

Personal privacy is a significant issue in the United States and in many other countries where our customers operate. The United States and many other countries have imposed restrictions and requirements on the use of personal information by those collecting such information. Changes to law or regulations affecting privacy, if applicable to our business or product, could impose additional costs and potential liability on us and could limit our use and disclosure of such information. If we were required to change our business activities or revise or eliminate services, our business could be harmed.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2011, Ultimate's corporate headquarters, and its principal administrative, technology, customer support, finance, marketing and information technology operations were located in Weston, Florida. Ultimate's principal facilities are described below:

<u>Location</u>	<u>Size (sq. ft.)</u>	<u>Lease Termination</u>	<u>General Use</u>
Weston, FL – HQ	39,872	1/31/2017	Technology
Weston, FL – HQ	21,392	1/31/2018	Executive Management and Customer Support
Weston, FL – HQ	5,000	Owned	Information Technology and Hosting Services
Weston, FL – HQ	30,000	5/31/2015	Sales Administration, Marketing, Professional Services and Finance
Weston, FL – HQ (1)	19,950	3/31/2018	Corporate Support and Information Technology
Weston, FL – HQ (2)	8,000	2/29/2016	Technology
Atlanta, GA (3)	49,172	5/31/2019	Professional Services, Customer Support and Payment Services
Santa Ana, CA (4)	13,000	8/31/2016	Payment Services and Professional Services
Schaumburg, IL (5)	7,861	6/30/2014	Administration and Training
Toronto, Ontario (6)	2,115	12/31/2015	Professional Services and Customer Support

- (1) In November 2010, Ultimate entered into an 84-month lease agreement for a fifth headquarters building located in Weston, Florida within a short distance of the other headquarters locations. Ultimate moved a portion of its operations into this building in January 2011.
- (2) In November 2010, Ultimate entered into a 60-month lease agreement for a sixth headquarters building located in Weston, Florida within a short distance of the other headquarters locations. Ultimate moved a portion of its operations into this building in January 2011.
- (3) During the first fiscal quarter of 2011, Ultimate entered into a 100-month lease agreement for office space in a building in Atlanta, Georgia. This lease was entered into after the early termination of a previous lease in the area to accommodate continued growth. This lease covers approximately twice the square footage of the previous lease.
- (4) During the first fiscal quarter of 2011, Ultimate entered into a 60-month lease agreement for office space in a building in Santa Ana, California. Ultimate moved its payment services operations into this building in August 2011.
- (5) During the fourth quarter of 2008, Ultimate entered into a 65-month lease agreement for office space in Schaumburg, Illinois to accommodate general office space and training facilities.
- (6) During the third fiscal quarter of 2009, Ultimate entered into a 64-month lease agreement for new office space in Toronto, Ontario with RT Twenty-Sixth Pension Properties Limited to accommodate continued growth in Canada.

Currently, we also lease office space for our sales operations in Albany, New York; Atlanta, Georgia; Dallas, Texas; Detroit, Michigan; Nashville, Tennessee; Lee's Summit, Missouri; Troy, Michigan; Ann Arbor, Michigan; Overland Park, Kansas; Jacksonville, Florida; Omaha, Nebraska;

Roseville, California; Ashburn, Virginia; and Cincinnati, Ohio. Sales operations in other locations are not supported by leased office space. We believe that our existing facilities are suitable and adequate for our current operations for the next 12 months. We further believe that suitable space will be available as needed to accommodate any expansion of our operations on commercially reasonable terms.

Item 3. Legal Proceedings

From time to time, we are involved in litigation relating to claims arising out of our operations in the normal course of business. We are not currently a party to any legal proceedings the adverse outcome of which, individually or in the aggregate, could reasonably be expected to have a material adverse effect on our operating results or financial condition.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information. The following table sets forth, for the periods indicated, the high and low sales prices of Ultimate’s Common Stock, as quoted on the NASDAQ Global Select Market (“NASDAQ”) under the symbol “ULTP”.

	<u>2011</u>		<u>2010</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First Quarter	\$60.43	\$47.20	\$34.94	\$26.81
Second Quarter	59.86	48.87	37.25	30.90
Third Quarter	58.89	43.28	39.23	31.38
Fourth Quarter	71.97	44.96	50.28	37.50

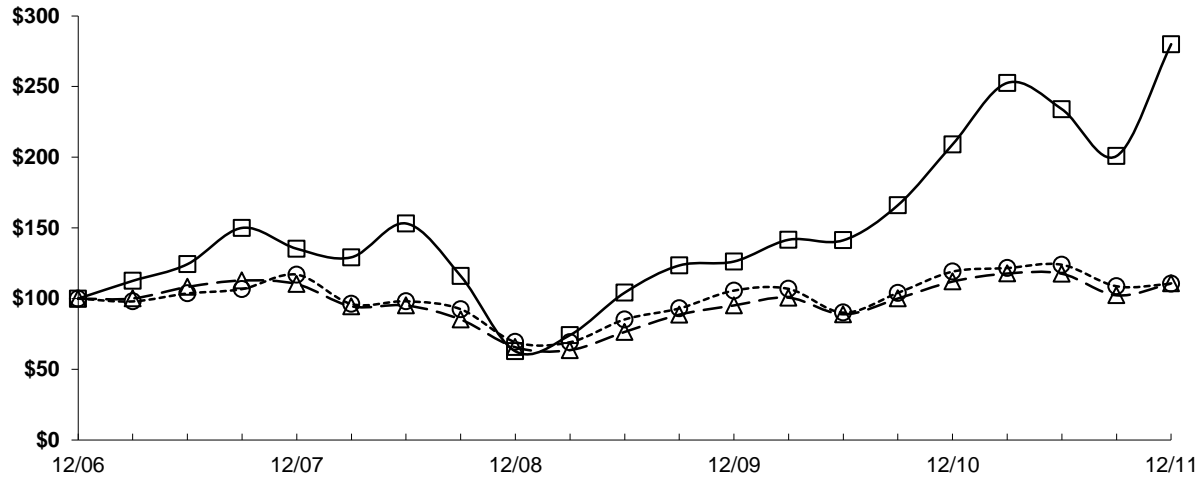
As of February 17, 2012, we had approximately 106 holders of record, representing approximately 3,217 stockholder accounts.

We have never declared or paid any cash dividends on our capital stock and do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain future earnings to fund the development and growth of our business. The payment of dividends in the future, if any, will be at the discretion of our Board of Directors.

Performance Graph. The following graph compares the cumulative total stockholder returns on Ultimate’s Common Stock for the five year period covering December 31, 2006-December 31, 2011, on an annual basis, with the cumulative total return of The Nasdaq Composite Index and the RDG Software Composite Index for the same period.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among The Ultimate Software Group, Inc., the NASDAQ Composite Index,
and the RDG Software Composite Index



—□— The Ultimate Software Group, Inc. -▲- NASDAQ Composite ---○--- RDG Software Composite

*\$100 invested on 12/31/06 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

Purchases of Equity Securities by the Issuer. On October 30, 2000, Ultimate announced that our Board of Directors authorized the repurchase of up to 1,000,000 shares of our outstanding Common Stock (the “Stock Repurchase Plan”).

On February 6, 2007, Ultimate’s Board of Directors extended the Stock Repurchase Plan by authorizing the repurchase of up to 1,000,000 additional shares of our issued and outstanding Common Stock.

On February 5, 2008, Ultimate’s Board of Directors extended the Stock Repurchase Plan further by authorizing the repurchase of up to 1,000,000 additional shares of our Common Stock.

On October 26, 2009, Ultimate’s Board of Directors extended the Stock Repurchase Plan further by authorizing the repurchase of up to 1,000,000 additional shares of our Common Stock.

On October 24, 2011, Ultimate’s Board of Directors extended the Stock Repurchase Plan further by authorizing the repurchase of up to 1,000,000 additional shares of our Common Stock.

As of December 31, 2011, Ultimate had purchased 3,941,813 shares of our Common Stock under the Stock Repurchase Plan, with 1,058,187 shares available for repurchase in the future. No shares of Common Stock were repurchased by us during the three months ended December 31, 2011 as indicated below:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Cumulative Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
October 1-31, 2011	–	–	3,941,813	1,058,187
November 1-30, 2011	–	–	3,941,813	1,058,187
December 1-31, 2011	–	–	3,941,813	1,058,187
Total	–	–	3,941,813	1,058,187

Item 6. Selected Financial Data

The following selected consolidated financial data is qualified by reference to and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Ultimate’s Consolidated Financial Statements and Notes thereto included elsewhere in this Form 10-K. The statements of operations data presented below for each of the years in the three-year period ended December 31, 2011 and the balance sheet data as of December 31, 2011 and 2010 have been derived from our Consolidated Financial Statements included elsewhere in this Form 10-K.

	Years Ended December 31,				
	2011	2010	2009	2008	2007
Statements of Operations Data:					
Revenues:					
Recurring	\$ 213,785	\$ 170,905	\$ 133,159	\$ 106,198	\$ 86,191
Services	53,195	55,368	58,996	60,535	49,492
License	2,218	1,538	4,125	11,264	14,372
Total revenues	<u>269,198</u>	<u>227,811</u>	<u>196,280</u>	<u>177,997</u>	<u>150,055</u>
Cost of revenues:					
Recurring	63,505	49,144	38,765	29,605	22,525
Services	52,341	49,843	48,304	50,058	39,995
License	488	255	750	1,795	1,659
Total cost of revenues	<u>116,334</u>	<u>99,242</u>	<u>87,819</u>	<u>81,458</u>	<u>64,179</u>
Gross profit	<u>152,864</u>	<u>128,569</u>	<u>108,461</u>	<u>96,539</u>	<u>85,876</u>
Operating expenses:					
Sales and marketing	63,145	58,374	52,810	47,193	36,109
Research and development	51,356	42,222	38,005	36,025	27,536
General and administrative	21,931	19,727	17,803	17,516	14,182
Total operating expenses	<u>136,432</u>	<u>120,323</u>	<u>108,618</u>	<u>100,734</u>	<u>77,827</u>
Operating income (loss)	<u>16,432</u>	<u>8,246</u>	<u>(157)</u>	<u>(4,195)</u>	<u>8,049</u>
Other (expense) income:					
Interest expense and other	(401)	(263)	(90)	(243)	(170)
Other income, net	91	188	162	857	5,988
Total other (expense) income, net	<u>(310)</u>	<u>(75)</u>	<u>72</u>	<u>614</u>	<u>5,818</u>
Income (loss) from continuing operations before income taxes	16,122	8,171	(85)	(3,581)	13,867
(Provision) benefit for income taxes	(11,840)	(5,161)	(721)	1,016	19,596
Income (loss) from continuing operations	4,282	3,010	(806)	(2,565)	33,463
Loss from discontinued operations, net of income taxes	-	(853)	(336)	(332)	(334)
Net income (loss)	<u>\$ 4,282</u>	<u>\$ 2,157</u>	<u>\$ (1,142)</u>	<u>\$ (2,897)</u>	<u>\$ 33,129</u>
Basic earnings (loss) per share: (1)					
Earnings (loss) from continuing operations	\$ 0.17	\$ 0.12	\$ (0.04)	\$ (0.10)	\$ 1.35
Loss from discontinued operations	-	(0.03)	(0.01)	(0.02)	(0.01)
Total	<u>\$ 0.17</u>	<u>\$ 0.09</u>	<u>\$ (0.05)</u>	<u>\$ (0.12)</u>	<u>\$ 1.34</u>
Diluted earnings (loss) per share: (1)					
Earnings (loss) from continuing operations	\$ 0.15	\$ 0.11	\$ (0.04)	\$ (0.10)	\$ 1.25
Loss from discontinued operations	-	(0.03)	(0.01)	(0.02)	(0.01)
Total	<u>\$ 0.15</u>	<u>\$ 0.08</u>	<u>\$ (0.05)</u>	<u>\$ (0.12)</u>	<u>\$ 1.24</u>
Weighted average shares outstanding: (1)					
Basic	25,814	24,960	24,463	24,588	24,701
Diluted	<u>27,806</u>	<u>27,101</u>	<u>24,463</u>	<u>24,588</u>	<u>26,722</u>
Balance Sheet Data:					
	As of December 31,				
	2011	2010	2009	2008	2007
Cash and cash equivalents	\$ 46,149	\$ 40,889	\$ 23,684	\$ 17,200	\$ 17,462
Investments in marketable securities	9,130	9,317	9,523	5,805	18,418
Total assets	318,820	249,557	171,130	147,257	135,156
Deferred revenue	86,563	78,095	68,559	63,494	51,708
Long-term borrowings, including capital lease obligations	2,175	2,406	1,710	1,519	2,311
Stockholders' equity	<u>\$ 85,624</u>	<u>\$ 72,985</u>	<u>\$ 57,770</u>	<u>\$ 51,072</u>	<u>\$ 60,978</u>

(1) See Note 11 of the Notes to the Consolidated Financial Statements for information regarding the computation of net earnings (loss) per share.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Our Management’s Discussion and Analysis of Financial Condition and Results of Operations provides information we believe is relevant to an assessment and understanding of our results of operations and financial condition. This discussion should be read in conjunction with our Consolidated Financial Statements and Notes that are included in this Form 10-K. Also, the discussion of Critical Accounting Estimates in this section is an integral part of the analysis of our results of operations and financial condition.

Overview

Ultimate is a leading provider of unified human capital management (“HCM”) software-as-a-service (“SaaS”) solutions for global businesses.

Ultimate’s UltiPro software (“UltiPro”) is a comprehensive SaaS-or cloud-based solution delivered primarily to organizations based in the United States and Canada and designed to deliver the functionality businesses need to manage the complete employment life cycle from recruitment to retirement. The solution includes feature sets for talent acquisition and onboarding, human resources (“HR”) management and compliance, benefits management and online enrollment, payroll, performance management, salary planning and budgeting for compensation management, succession management, reporting and analytical decision-making tools, and time and attendance. UltiPro has role-based self-service capabilities for executives, managers, administrators, and employees whether they are in or out of the office, including an UltiPro application for use on mobile devices such as the iPhone and iPad.

Our SaaS offering of UltiPro (the “SaaS Offering”) provides Web-based access to comprehensive HCM functionality for organizations that want to simplify delivery and support of their business applications. We have found that our SaaS Offering is attractive to companies that want to focus on their core competencies to increase sales and profits. Through the SaaS Offering, we supply and manage the hardware, infrastructure, ongoing maintenance and backup services for our customers. Customer systems are managed at three data centers, one located in the Miami, Florida area, one in the Atlanta, Georgia area, and another in Toronto, Canada. All data centers are owned and operated by independent third parties.

UltiPro is marketed as two solution suites, based on company size. UltiPro Enterprise (“Enterprise”) is designed to address the needs of companies with 1,000 or more employees. UltiPro Workplace (“Workplace”) is designed for companies with fewer than 1,000 employees. Both solution suites are delivered exclusively through SaaS. UltiPro Workplace provides medium-sized and smaller companies with nearly all the features that larger Enterprise companies have with UltiPro, plus a bundled services package. Since many companies in this market do not have information technology staff on their premises to help with system issues, UltiPro Workplace is designed to give these customers a high degree of convenience by handling system setup, business rules, and other situations for customers “behind the scenes.” UltiPro is marketed primarily through Ultimate’s Enterprise and Workplace direct sales teams.

In addition to UltiPro’s core HCM functionality, our customers have the option to purchase a number of additional features on a per-employee-per-month (“PEPM”) basis, which are available to enhance the functionality of UltiPro’s core features and which are based on the particular business needs of the customers. These optional UltiPro features currently include (i) the talent management suite of products (recruitment, onboarding, performance management, succession management, salary planning and budgeting for compensation management, and employee relations tools for managing disciplinary actions, grievances, and succession management); (ii) benefits enrollment; (iii) time, attendance and scheduling; (iv) time management; (v) payment services (formerly referred to as “tax filing”); (vi) wage attachments; and (vii) other optional features (collectively, “Optional Features”). All Optional Features are individually

priced solely on a subscription basis. Some of the Optional Features are available to both Enterprise and Workplace customers while others are available exclusively to either Enterprise or Workplace customers, and availability is based on the needs of the respective customer types, the number of their employees and the complexity of their HCM environment.

During the second half of 2010, we introduced our Partners for Life program to our customers. Our Partners for Life program is designed to make it easier for customers to leverage the full scope of UltiPro's features and reach more users in our customers' organizations. As part of the Partners for Life program, we changed the pricing method for our services from a time and materials offering to a fixed fee offering, with the expected objective of lowering the total cost of services charged to each customer. The incremental benefit for the Partners for Life program is that we enhance the quality of our customer relationships and encourage increased customer loyalty, as well as a readiness for the customer to be a reference for us. For more information about the Partners for Life program, see the discussion of services revenues under "Results of Operations – Revenues" below.

The key drivers of our business are (i) growth in recurring revenues; (ii) retention of our customers once our solutions are sold ("Customer Retention") and (iii) management's control of operating expense growth. For the year ended December 31, 2011, our (i) recurring revenues grew by 25%, compared with 2010, (ii) Customer Retention exceeded 96%, on a trailing twelve-month basis, and (iii) operating expenses grew by 13% compared with 2010.

Our ability to achieve significant revenue growth in the future will depend upon the success of our direct sales force and our ability to adapt our sales efforts to address the evolving markets for our products and services. We provide our sales personnel with comprehensive and continuing training with respect to technology and market place developments. Aside from sales commissions, we also provide various incentives to encourage our sales representatives, including stock-based compensation awards based upon performance.

The HCM market is intensely competitive. We address competitive pressures through improvements and enhancements to our products and services, the development of additional features of UltiPro and a comprehensive marketing team and process that distinguishes Ultimate and its products from the competition. Our focus on customer service, which enables us to maintain a high Customer Retention rate, also helps us address competitive pressures.

As our business has grown, we have become increasingly subject to the risks arising from adverse changes in domestic and global economic conditions. If general economic conditions were to deteriorate further, we may experience delays in our sales cycles, increased pressure from prospective customers to offer discounts and increased pressure from existing customers to renew expiring recurring revenue agreements for lower amounts. We address continuing economic pressures by, among other things, efforts to control growth of our operating expenses through the monitoring of controllable costs and vendor negotiations.

Ultimate has two primary revenue sources: recurring revenues and services revenues. Subscription revenues from our SaaS Offering and customer support and maintenance revenues are the primary components of recurring revenues. The majority of services revenues are derived from implementation services.

We discontinued selling our on-site UltiPro solutions to new customers on a perpetual license basis as of April 1, 2009. We sell licenses to existing license customers but only in relation to the customer's employee growth or for Optional Features if the customer already has a perpetual license for the on-site UltiPro solutions. As perpetual license agreements were sold, annual maintenance contracts (priced as a

percentage of the related license fee) accompanied those agreements. Maintenance contracts typically have a one-year term with annual renewal periods thereafter.

As SaaS units are sold, the recurring revenue backlog associated with the SaaS Offering grows, enhancing the predictability of future revenue streams. SaaS revenues include ongoing monthly subscription fees, priced on a PEPM basis. Revenue recognition for the SaaS Offering is triggered when the customer processes its first payroll using UltiPro (or goes “Live”). Recognition of recurring subscription revenues from our SaaS Offering begins when the related customer goes Live.

Critical Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Effective January 1, 2011, we adopted Accounting Standards Update No. 2009-13, “Multiple-Deliverable Revenue Arrangements” (“ASU 2009-13”) on a prospective basis. ASU 2009-13 requires the use of the relative selling price method of allocating the total consideration to units of accounting in a multiple element arrangement and eliminates the residual method. This new accounting principle requires an entity to allocate revenue in an arrangement using the estimated selling price (“ESP”) of deliverables if it does not have vendor-specific objective evidence (“VSOE”) or third-party evidence (“TPE”) of selling price. The adoption of ASU 2009-13 did not have a material impact on our consolidated financial statements.

VSOE is the price charged when the same or similar product or service is sold separately. We define VSOE as a median price of recent stand-alone transactions that are priced within a narrow range.

TPE is determined based on the prices charged by our competitors for a similar deliverable when sold separately. However, due to the difficulty in obtaining sufficient information on competitor pricing and differences in our product offerings when compared with those of our peers, we generally are unable to reliably determine TPE.

ESP is our best estimate of the selling price of an element in a transaction. If we are unable to establish selling price using either VSOE or TPE, we will use ESP in our allocation of arrangement consideration. The objective of ESP is to determine the price at which we would transact business if the product or service were sold by us on a stand-alone basis. Our determination of ESP involves the use of a customary discount from the list (or book) price for each element, with the discounted price applied within a narrow range. The customary discount is derived from historical data that has been analyzed to determine trends and patterns. We analyze the customary discount used for determining ESP on no less than an annual basis.

We evaluate each deliverable in our arrangements to determine whether it represents a separate unit of accounting. A deliverable constitutes a separate unit of accounting when it has stand-alone value to our customers. Our products and services to continue to qualify as separate units of accounting under ASU 2009-13.

There are two major elements in our multiple element arrangements for the delivery of our SaaS Offering, which are recurring revenues (i.e., SaaS subscription revenues and customer support and maintenance revenues) and services revenues (mostly implementation consulting services). Also included in our total revenues, to a much lesser degree, are license revenues from the employee growth of our previously licensed customers.

For multiple element arrangements, the consideration allocated to SaaS subscription revenues is recognized as recurring revenues over the initial contract period, as those services are delivered, commencing with the Live date of the related product. The consideration allocated to fixed fee implementation services in multiple element arrangements is recognized as services revenues on a percentage of completion basis, using reasonably dependable estimates with respect to milestones achieved (in relation to progression through implementation phases), by product.

Single element arrangements typically consist of renewals for SaaS subscriptions and maintenance agreements. In addition, subsequent to the introduction of the Partners for Life program (in the second half of 2010), implementation services sold on a time and materials basis typically represent single element arrangements. Under these single element arrangements, SaaS subscription and maintenance revenues are recognized over the related renewal period, as the services are delivered, and implementation services are recognized as the services are performed.

We recognize revenues when all of the following criteria are met:

- persuasive evidence of an arrangement exists;
- delivery has occurred;
- the fees are fixed and determinable; and
- collection is considered probable.

If collection is not considered probable, we recognize revenues when the fees are collected. If the fees are not fixed and determinable, we recognize revenues when the fees become due from the customer. If non-standard acceptance periods or non-standard performance criteria are required, we recognize revenue when the acceptance period expires or upon the satisfaction of the acceptance/performance criteria, as applicable.

The majority of services revenues are recognized over the implementation period, which is from the contract execution date until the Live date. SaaS revenues are recognized over the contract term, beginning in the month the customer goes Live. There was no material change to the pattern or timing of revenue recognition for either services or SaaS elements as a result of adopting ASU 2009-13.

Recurring Revenues

Recurring revenues consist of subscription revenues recognized from our SaaS Offering, as well as customer support and maintenance revenues.

- i) SaaS subscription revenues are principally derived from PEPM fees earned from the SaaS Offering and from sales of hosting services on a stand-alone basis to customers who already own a perpetual license (“Base Hosting”). Ongoing PEPM fees from the SaaS Offering and Base Hosting are recognized as subscription revenues as the services are delivered, commencing when the customer goes Live.
- ii) Customer support and maintenance revenues are derived from maintaining, supporting, and providing periodic updates of our software for our hosting services. Since we stopped selling

perpetual licenses to our new customers effective April 1, 2009, customer support and maintenance revenues stem from annual renewals.

Under our SaaS Offering, our customers do not have the right to take possession of our software and these arrangements are considered service contracts. Selling price of multiple deliverables in SaaS arrangements is derived for each element based on the guidance provided by ASU 2009-13. The multiple elements that typically exist in SaaS arrangements include hosting services, the right to use UltiPro, maintenance of UltiPro (i.e., product enhancements, updates and customer support) and professional services (i.e., primarily implementation consulting services).

The pricing for the three elements that pertain to recurring revenues (i.e., hosting services, the right to use UltiPro and maintenance of UltiPro) is bundled. Since these three bundled elements are components of recurring revenues in the consolidated statements of operations, allocation of selling price to each of the three elements is not necessary and they are not reported separately. Selling price, which is established through VSOE, for the bundled elements, as a whole, is determined on the basis of renewal pricing, without taking into consideration potential price increases or potential changes in the number of employees of the customer in the future due to the uncertainties surrounding these potential occurrences. These bundled elements are provided on an ongoing basis, represent undelivered elements and are recognized on a monthly basis as the related services are performed, commencing once the customer goes Live.

Services Revenues

Services revenues primarily include revenues from fees charged for implementation consulting services in connection with the implementation of our product solutions and, to a much lesser extent, training of customers in the use of our products and fees for other services, including the provision of payroll-related forms, sales of time clocks and the printing of W-2 forms for certain customers, as well as certain client reimbursable out-of-pocket expenses.

Prior to the introduction of the Partners for Life program in the second half of 2010, our multiple element sales contracts included recurring SaaS revenues, priced on a PEPM basis, and implementation consulting services, priced on a time and materials basis. As the Partners for Life program has evolved (particularly over the course of 2011), we have found that the vast majority of multiple element contracts contain recurring SaaS revenues and implementation consulting services priced on a fixed fee basis. Time and materials implementation consulting services are still sold but, generally, as stand-alone sales not directly related to the basic implementation of the SaaS product. The total arrangement consideration is allocated to services elements in the arrangement based on relative selling prices, using the prices established when the services are sold on a stand-alone basis. Selling price is established through ESP for fixed fee implementation consulting services related to our Partners for Life program.

Revenues from implementation consulting services sold on a fixed-fee basis are recognized using the percentage of completion accounting method, which involves the use of estimates. Percentage of completion is measured at each reporting date based on progress made to date, using reasonably dependable estimates with respect to milestones achieved or billable hours, as applicable.

Revenues from implementation consulting services, billed on a time and materials basis (at an hourly rate), are recognized as these services are performed. Other services are recognized as the product is shipped or as the services are rendered, depending on the specific terms of the related arrangement.

License Revenues

From our inception through March 31, 2009, we sold perpetual licenses of UltiPro, which resulted in license revenues recognized for that period of time. Customer support and maintenance revenues, from previously sold perpetual licenses, are derived from maintaining, supporting, and providing periodic updates of our software. Customer support and maintenance revenues are recognized ratably over the service period, generally one year, and are included in recurring revenues. Annual maintenance renewal fees which occur subsequent to the initial contract period are also recognized ratably over the related service period and are included in recurring revenues.

Since April 1, 2009, sales to new customers are only on a subscription basis (priced and billed to our customers on a PEPM basis). We no longer sell our on-site UltiPro solutions to new customers on a perpetual license basis. We do sell licenses to existing license customers but only in relation to the customer's employee growth. Any such licenses are recognized as license revenues in our consolidated financial statements upon the delivery of the related software product when all significant contractual obligations have been satisfied.

Income Taxes

We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes.

Ultimate assesses the likelihood that it will be able to recover its deferred tax assets. Management considers all available evidence, both positive and negative, including historical levels of pre-tax book income, expiration of net operating loss carryforwards, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies as well as current tax laws and interpretation of current tax laws in assessing the need for a valuation allowance. If recovery is not likely, we record a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. The available positive evidence at December 31, 2011 included, among other factors, three years of cumulative historical pre-tax book income and a projection of future pre-tax book income and taxable income. As a result of our analysis of all available evidence, both positive and negative, at December 31, 2011, it was considered more likely than not that a valuation allowance for deferred tax assets was not required.

As of December 31, 2011, we believed it more likely than not that the amount of the deferred tax assets recorded on the consolidated balance sheet will ultimately be recovered. However, should there be a change in our ability to recover the deferred tax assets, the tax provision would increase in the period in which it is determined that recovery is not probable.

Allowance for Doubtful Accounts

We perform credit evaluations of our customers to assess their ability to make payments to us for our products and services. We maintain an allowance for doubtful accounts at an amount estimated to be sufficient to provide adequate protection against losses resulting from collecting less than full payment on accounts receivable. A considerable amount of judgment is required in determining the amount of our allowance for doubtful accounts, including assessing the probability of collection and current credit-worthiness of each customer. If the financial condition of our customers were to deteriorate, resulting in

further impairment of their ability to make payments, an additional provision for doubtful accounts may be required.

Results of Operations

The following table sets forth the consolidated statements of operations data of Ultimate, as a percentage of total revenues, for the periods indicated.

	For the Years Ended December 31,					
	2011		2010		2009	
Revenues:						
Recurring	79.4	%	75.0	%	67.8	%
Services	19.8		24.3		30.1	
License	0.8		0.7		2.1	
Total revenues	<u>100.0</u>		<u>100.0</u>		<u>100.0</u>	
Cost of revenues:						
Recurring	23.6		21.6		19.7	
Services	19.4		21.9		24.6	
License	0.2		0.1		0.4	
Total cost of revenues	<u>43.2</u>		<u>43.6</u>		<u>44.7</u>	
Gross profit	<u>56.8</u>		<u>56.4</u>		<u>55.3</u>	
Operating expenses:						
Sales and marketing	23.5		25.6		26.9	
Research and development	19.1		18.5		19.3	
General and administrative	8.1		8.7		9.1	
Total operating expenses	<u>50.7</u>		<u>52.8</u>		<u>55.3</u>	
Operating income (loss)	6.1		3.6		–	
Other income (expense):						
Interest expense and other	(0.1)		(0.1)		–	
Other income, net	–		0.1		–	
Total other income (expense), net	<u>(0.1)</u>		<u>–</u>		<u>–</u>	
Income (loss) from continuing operations before income taxes	6.0		3.6		–	
(Provision) for income taxes	<u>(4.4)</u>		<u>(2.3)</u>		<u>(0.4)</u>	
Income (loss) from continuing operations	1.6		1.3		(0.4)	
Loss from discontinued operations, net of taxes	–		(0.4)		(0.2)	
Net income (loss)	<u>1.6</u>	%	<u>0.9</u>	%	<u>(0.6)</u>	%

Comparison of Fiscal Years Ended December 31, 2011 and 2010

Revenues

Our revenues are derived from recurring revenues, services revenues and, to a much lesser extent, license revenues. See “Revenue Recognition” above for further discussion of Ultimate’s revenue sources and its method of accounting for each of them.

Total revenues, consisting of recurring, services and license revenues, increased 18.2% to \$269.2 million for 2011 from \$227.8 million for 2010.

Recurring revenues increased 25.1% to \$213.8 million for 2011 from \$170.9 million for 2010. The increase in recurring revenues for 2011 was primarily due to an increase in SaaS revenues, partially offset by a decrease in maintenance revenues, as described below:

- i) SaaS revenues increased 31.5% for 2011, primarily due to the continued growth of the SaaS Offering, which comprised the majority of unit sales. The increase in SaaS revenues is based on the revenue impact of incremental units that have gone Live since December 31, 2010, including the UltiPro core product and, to a lesser extent, Optional Features of UltiPro. Recognition of recurring revenues for SaaS sales commences upon the respective Live date.
- ii) Maintenance revenues from previously sold licenses decreased 2.3% primarily due to the fact that we stopped selling licenses on a perpetual basis to new customers effective April 1, 2009. Maintenance revenues are recognized over the initial term of the related license contract, which is typically 12 months, and then on a monthly recurring basis thereafter as the maintenance contracts renew annually.
- iii) Our annual revenue customer retention rate for total recurring revenues was 96% in 2011. This rate is comprised of an annual retention rate exceeding 96% for existing SaaS customers and an annual retention rate of approximately 95% for existing license customers from which renewal maintenance revenues are derived.
- iv) The impact on recurring revenues of units sold under the SaaS Offering has been a gradual increase from one reporting period to the next, based on the incremental effect of revenue recognition of the SaaS fees over the terms of the related contracts as sales in backlog go Live.

Services revenues decreased 3.9% to \$53.2 million for 2011 from \$55.4 million for 2010 primarily as a result of a decrease in training revenues and, to a lesser extent, a decrease in implementation revenues. Training revenues decreased mainly due to the transition to our Partners for Life program, which began in late 2010 and was ramping up in 2011. The Partners for Life program changed the method by which we charge customers for our services that are delivered primarily over the period leading up to the point the customer goes Live (the "Time to Live Period"). As new sales are generated, we charge a fixed fee for services based on the number of the customer's employees, as opposed to our former billing method for new sales, which included charging customers on a time and materials basis as these services were provided. The Partners for Life program was designed to lower the total cost of services charged to each customer primarily over the Time to Live Period for UltiPro and/or Optional Features, through a fixed fee. Implementation consulting revenues decreased primarily due to less billable hours generated from time and materials engagements, partially offset by higher revenues from fixed fee engagements. The decreases in training revenues and implementation consulting revenues were partially offset by higher other services revenues, including increased revenues from printing W-2 forms for our customers and increased sales of time clocks.

License revenues increased 44.2% to \$2.2 million for 2011 from \$1.5 million for 2010. The increase in 2011 was due to the increased employee growth of our license customers.

Cost of Revenues

Cost of revenues primarily consists of the costs of recurring and services revenues. Cost of recurring revenues primarily consists of costs to provide maintenance and technical support to Ultimate's customers, the cost of providing periodic updates and the cost of recurring subscription revenues, including hosting data center costs and amortization of capitalized software. Cost of services revenues primarily consists of costs to provide implementation services and training to Ultimate's customers and, to a lesser extent, costs related to sales of payroll-related forms and costs associated with certain client reimbursable out-of-pocket expenses.

Cost of recurring revenues increased 29.2% to \$63.5 million for 2011 from \$49.1 million for 2010. The \$14.4 million increase in the cost of recurring revenues for the year was primarily due to increases in both SaaS costs and customer support and maintenance costs, as described below:

- i) The increase in SaaS costs was principally a result of the growth in SaaS operations and increased sales, including increased labor costs, costs related to our payment services (as we continue to grow that business) and, to a lesser extent, increased hosting data center costs and increased third-party consulting costs.
- ii) The increase in customer support and maintenance costs was primarily due to higher labor costs commensurate with the growth in the number of customers serviced and, to a lesser extent, higher software amortization costs.

Cost of services revenues increased 5.0% to \$52.3 million for 2011 from \$49.8 million for 2010. The \$2.5 million increase in cost of services revenues was primarily due to increased costs for third-party implementation partners (“IPs”) and an increase in costs for other services, including increased costs of time clocks and higher costs related to printing and shipping W-2 forms for our customers.

Cost of license revenues increased by \$0.2 million, or 91.4%, to \$0.5 million for 2011 from \$0.3 million in 2010. This increase in cost was due to an increase in the employee growth of our license customers.

Sales and Marketing

Sales and marketing expenses consist primarily of salaries and benefits, sales commissions, travel and promotional expenses, and facility and communication costs for direct sales offices, as well as advertising and marketing costs. Sales and marketing expenses increased 8.2% to \$63.1 million for 2011 from \$58.4 million for 2010. The \$4.7 million increase for the year was primarily due to increased labor and related costs (including higher sales commissions related to increased SaaS sales), partially offset by decreased advertising and marketing costs and lower third-party consulting costs. Commissions on SaaS sales are amortized over the initial contract term (typically 24 months) commencing on the Live date, which corresponds with the related SaaS revenue recognition.

Research and Development

Research and development expenses consist primarily of software development personnel costs. Research and development expenses increased 21.6% to \$51.4 million in 2011 from \$42.2 million in 2010. The \$9.2 million increase in research and development expenses during 2011 was principally due to higher labor and related costs attributable to the ongoing development of UltiPro and complementary products, including the impact of increased personnel costs (predominantly from additional headcount) and, to a lesser extent, increased third-party consulting costs.

General and Administrative

General and administrative expenses consist primarily of salaries and benefits of executive, administrative and financial personnel, as well as external professional fees and the provision for doubtful accounts. General and administrative expenses increased by 11.2% to \$21.9 million for 2011 from \$19.7 million for 2010. The increase in general and administrative expenses for 2011 was primarily due to increased labor and related costs and, to a lesser extent, an increase in third-party consulting costs, partially offset by decreased professional fees.

Interest Expense and Other

Interest expense and other increased \$138 thousand, or 52.5%, to \$401 thousand for 2011 from \$263 thousand for 2010.

Other Income, net

Other income, net, decreased by 51.6% to \$91 thousand for 2011 from \$188 thousand for 2010.

Provision for Income Taxes

In 2011, based on pre-tax income from continuing operations we had income tax expense of \$11.8 million as compared to \$5.2 million in 2010. The increase in income tax expense of \$6.6 million was primarily due to an increase in pre-tax book income and non-deductible expenses and a decrease in our foreign valuation allowance. Net operating loss carryforwards available at December 31, 2011, expiring at various times from 2012 through 2031 and which are available to offset future U.S. taxable income, approximated \$112.8 million. The timing and levels of future profitability may result in the expiration of net operating loss carryforwards before utilization. Additionally, utilization of such net operating losses may be limited as a result of cumulative ownership changes in our equity instruments.

We recognized \$21.4 million of deferred tax assets, net of deferred tax liabilities, as of December 31, 2011. If estimates of taxable income are decreased, a valuation allowance may need to be provided for some or all deferred tax assets, which will cause an increase in income tax expense.

Comparison of Fiscal Years Ended December 31, 2010 and 2009

Revenues

Total revenues, consisting of recurring, services and, to a much lesser extent, license revenues, increased 16.1% to \$227.8 million for 2010 from \$196.3 million for 2009.

Recurring revenues increased 28.3% to \$170.9 million for 2010 from \$133.2 million for 2009. The increase in recurring revenues for 2010 was primarily due to an increase in SaaS revenues, partially offset by a decrease in maintenance revenues, as described below:

- i) SaaS revenues increased 39.9% for 2010, primarily due to the continued growth of the SaaS Offering, which comprised the majority of unit sales. The increase in SaaS revenues is based on the revenue impact of incremental units that have gone Live since December 31, 2009, including the UltiPro core product and, to a lesser extent, Optional Features of UltiPro.
- ii) Maintenance revenues from previously sold licenses decreased 3.3% primarily due to the fact we stopped selling licenses on a perpetual basis to new customers effective April 1, 2009.
- iii) Our annual revenue customer retention rate for total recurring revenues was 96% in 2010. This rate is comprised of an annual retention rate exceeding 96% for existing SaaS customers and an annual retention rate of approximately 95% for existing license customers from which renewal maintenance revenues are derived.

Services revenues decreased 6.1% to \$55.4 million for 2010 from \$59.0 million for 2009 primarily as a result of a decrease in implementation revenues. Implementation revenues decreased due to lower

billable hours from a reduction in revenue-generating consultants and a lower net rate per hour, partially offset by increased services revenues from our Workplace solution.

License revenues decreased 62.7% to \$1.5 million for 2010 from \$4.1 million for 2009. The decrease in 2010 was principally due to Ultimate's decision not to sell perpetual licenses to new customers after April 1, 2009.

Cost of Revenues

Cost of recurring revenues increased 26.8% to \$49.1 million for 2010 from \$38.8 million for 2009. The \$10.3 million increase in the cost of recurring revenues for the year was primarily due to increases in both SaaS costs and customer support and maintenance costs as described below:

- i) The increase in SaaS costs was principally a result of the growth in SaaS operations and increased sales, including increased labor costs, costs related to our payment services (as we continue to grow that business) and, to a lesser extent, increased hosting data center costs.
- ii) The increase in customer support and maintenance costs was primarily due to higher labor costs commensurate with the growth in the number of customers serviced.

Cost of services revenues increased 3.2% to \$49.8 million for 2010 from \$48.3 million for 2009. The \$1.5 million increase in cost of services revenues was primarily due to an increase in labor costs to support the increased sales from our Workplace solution.

Cost of license revenues decreased by \$0.5 million, or 66.0%, to \$0.3 million for 2010 from \$0.8 million in 2009. This decrease in cost was principally due to our decision not to sell perpetual licenses to new customers effective April 1, 2009.

Sales and Marketing

Sales and marketing expenses increased 10.5% to \$58.4 million for 2010 from \$52.8 million for 2009. The \$5.6 million increase for the year was primarily due to increased labor and related costs (including higher sales commissions related to increased SaaS sales), and increased advertising and marketing costs. The overall increase in sales and marketing expenses was partially offset by lower commissions on license sales which correlates with the decrease in license revenues.

Research and Development

Research and development expenses increased 11.1% to \$42.2 million in 2010 from \$38.0 million, net of capitalized software costs (totaling \$0.1 million), in 2009. The increase in research and development expenses during 2010 was principally due to higher labor costs related to the ongoing development of UltiPro and complementary products, including the impact of increased personnel costs (predominantly from additional headcount) and, to a lesser extent, increased third-party consulting costs.

General and Administrative

General and administrative expenses increased by 10.8% to \$19.7 million for 2010 from \$17.8 million for 2009. The increase in general and administrative expenses for 2010 was primarily due to increased labor and related costs, an increase in the provision for doubtful accounts and, to a lesser extent, increased professional fees.

Interest Expense and Other

Interest expense and other increased \$173 thousand, or 192.2%, to \$263 thousand for 2010 from \$90 thousand for 2009.

Other Income, net

Other income, net, increased by 16.0% to \$188 thousand for 2010 from \$162 thousand for 2009.

Provision for Income Taxes

In 2010, based on pre-tax income from continuing operations, we had income tax expense of \$5.2 million as compared to \$0.7 million in 2009. The increase in income tax expense of \$4.4 million was primarily due to an increase in pre-tax book income and non-deductible expenses and a decrease in our foreign valuation allowance. Net operating loss carryforwards available at December 31, 2010, expiring at various times from 2011 through 2030 and which are available to offset future U.S. taxable income, approximated \$96.7 million. The timing and levels of future profitability may result in the expiration of net operating loss carryforwards before utilization. Additionally, utilization of such net operating losses may be limited as a result of cumulative ownership changes in our equity instruments.

We recognized \$24.4 million of deferred tax assets, net of deferred tax liabilities, as of December 31, 2010. If estimates of taxable income are decreased, a valuation allowance may need to be provided for some or all deferred tax assets, which will cause an increase in income tax expense.

Quarterly Results of Operations

The following table sets forth certain unaudited quarterly results of operations for each of the quarters in the years ended December 31, 2011 and 2010. In management's opinion, this unaudited information has been prepared on the same basis as the audited consolidated financial statements and includes all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the information for the quarters presented. This information should be read in conjunction with Ultimate's Consolidated Financial Statements and Notes thereto included elsewhere in this Form 10-K.

Our quarterly revenues and operating results have varied significantly in the past and are likely to vary substantially from quarter to quarter in the future. Our operating results may fluctuate as a result of a number of factors, including, but not limited to, increased expenses (especially as they relate to product development, sales and marketing and the use of third-party consultants), timing of product releases, increased competition, variations in the mix of revenues, announcements of new products by us or our competitors and capital spending patterns of our customers. We establish our expenditure levels based upon our expectations as to future revenues, and, if revenue levels are below expectations, expenses can be disproportionately high. A drop in near term demand for our products could significantly affect both revenues and profits in any quarter. Operating results achieved in previous fiscal quarters are not necessarily indicative of operating results for the full fiscal years or for any future periods. As a result of these factors, there can be no assurance that we will be able to achieve or maintain profitability on a quarterly basis. We believe that, due to the underlying factors for quarterly fluctuations, quarter-to-quarter comparisons of Ultimate's operations are not necessarily meaningful and that such comparisons should not be relied upon as indications of future performance.

Quarters Ended (in thousands, except per share data)	Dec. 31, 2011	Sep. 30, 2011	Jun. 30, 2011	Mar. 31, 2011	Dec. 31, 2010	Sep. 30, 2010	Jun. 30, 2010	Mar. 31, 2010
	(Unaudited)							
Revenues:								
Recurring	\$57,146	\$54,689	\$52,002	\$49,948	\$46,038	\$44,054	\$41,365	\$39,448
Services	14,911	12,794	11,761	13,729	13,959	12,796	13,032	15,581
License	681	267	442	828	409	181	320	628
Total revenues	<u>72,738</u>	<u>67,750</u>	<u>64,205</u>	<u>64,505</u>	<u>60,406</u>	<u>57,031</u>	<u>54,717</u>	<u>55,657</u>
Cost of revenues:								
Recurring	16,748	16,521	15,543	14,693	13,101	12,591	12,048	11,404
Services	13,235	13,073	12,104	13,929	12,932	11,853	11,877	13,181
License	154	61	100	173	105	-	50	100
Total cost of revenues	<u>30,137</u>	<u>29,655</u>	<u>27,747</u>	<u>28,795</u>	<u>26,138</u>	<u>24,444</u>	<u>23,975</u>	<u>24,685</u>
Gross profit	42,601	38,095	36,458	35,710	34,268	32,587	30,742	30,972
Operating expenses:								
Sales and marketing	15,496	15,002	15,524	17,123	14,038	14,640	14,580	15,116
Research and development	13,763	13,256	12,370	11,967	10,790	10,679	10,520	10,233
General and administrative	5,561	4,995	5,762	5,613	4,708	4,849	5,169	5,001
Total operating expenses	<u>34,820</u>	<u>33,253</u>	<u>33,656</u>	<u>34,703</u>	<u>29,536</u>	<u>30,168</u>	<u>30,269</u>	<u>30,350</u>
Operating income	7,781	4,842	2,802	1,007	4,732	2,419	473	622
Other (expense) income:								
Interest and other expense	(36)	(64)	(143)	(158)	(69)	(88)	(61)	(45)
Other income, net	14	17	26	34	53	68	45	22
Total other (expense) income, net	<u>(22)</u>	<u>(47)</u>	<u>(117)</u>	<u>(124)</u>	<u>(16)</u>	<u>(20)</u>	<u>(16)</u>	<u>(23)</u>
Income from continuing operations before income taxes	7,759	4,795	2,685	883	4,716	2,399	457	599
Provision for income tax	<u>(5,783)</u>	<u>(3,710)</u>	<u>(1,792)</u>	<u>(555)</u>	<u>(3,270)</u>	<u>(1,426)</u>	<u>(186)</u>	<u>(279)</u>
Income from continuing operations	1,976	1,085	893	328	1,446	973	271	320
Income (loss) from discontinued operations, net of income taxes	-	-	-	-	-	77	(865)	(65)
Net income (loss)	<u>\$1,976</u>	<u>\$1,085</u>	<u>\$893</u>	<u>\$328</u>	<u>\$1,446</u>	<u>\$1,050</u>	<u>\$(594)</u>	<u>\$255</u>
Basic earnings (loss) per share:								
Earnings from continuing operations	\$0.08	\$0.04	\$0.03	\$0.01	\$0.06	\$0.04	\$0.01	\$0.01
Loss from discontinued operations	-	-	-	-	-	-	(0.03)	-
Total	<u>\$0.08</u>	<u>\$0.04</u>	<u>\$0.03</u>	<u>\$0.01</u>	<u>\$0.06</u>	<u>\$0.04</u>	<u>\$(0.02)</u>	<u>\$0.01</u>
Diluted earnings (loss) per share:								
Earnings from continuing operations	\$0.07	\$0.04	\$0.03	\$0.01	\$0.05	\$0.04	\$0.01	\$0.01
Loss from discontinued operations	-	-	-	-	-	-	(0.03)	-
Total	<u>\$0.07</u>	<u>\$0.04</u>	<u>\$0.03</u>	<u>\$0.01</u>	<u>\$0.05</u>	<u>\$0.04</u>	<u>\$(0.02)</u>	<u>\$0.01</u>
Weighted average shares outstanding:								
Basic	26,055	25,767	25,837	25,594	25,302	24,937	24,839	24,755
Diluted	<u>27,838</u>	<u>27,747</u>	<u>27,863</u>	<u>27,724</u>	<u>27,412</u>	<u>27,011</u>	<u>26,972</u>	<u>26,823</u>

Liquidity and Capital Resources

In recent years, we have funded operations from cash flows generated from operations and, to a lesser extent, equipment financing and borrowing arrangements.

As of December 31, 2011, we had \$55.3 million in cash, cash equivalents and total investments in marketable securities, reflecting a net increase of \$5.1 million since December 31, 2010. This \$5.1 million increase was primarily due to cash provided by operating activities of \$28.4 million, partially offset by cash purchases of property and equipment (including principal payments on financed equipment) of \$16.7 million, the repurchase of Common Stock (net of proceeds from the issuance of Common Stock from employee stock option exercises) of \$4.0 million and cash used to settle employee tax withholding liabilities for vesting of restricted stock awards and restricted stock units of \$10.9 million.

Our operating cash inflows primarily consist of payments received from our customers related to our SaaS Offering. Our operating cash outflows primarily consist of cash we invest in personnel and infrastructure to support the anticipated growth of our business, payments to vendors directly related to our services, payments under arrangements with third party vendors who provide hosting infrastructure services in connection with our SaaS Offering, related sales and marketing costs, costs of operations and systems development and programming costs. Net cash provided by operating activities increased \$3.0 million during 2011 as compared to 2010 primarily due to an increase in operating income and changes in working capital accounts, after adjusting for the impacts of non-cash expenses such as depreciation, amortization and expense associated with stock-based compensation awards.

Net cash used in investing activities was \$59.3 million for 2011 as compared to \$54.1 million for 2010. The \$5.2 million increase from 2010 was primarily attributable to an increase in cash purchases of property and equipment of \$8.7 million, partially offset by a decrease of \$3.5 million in funds received from and held in our bank accounts on behalf of Ultimate's customers using the UltiPro Payment Services offering ("UltiPro Payment Services Customer Funds"). These funds held in our bank accounts are fully insured by the Federal Deposit Insurance Corporation.

Net cash provided by financing activities was \$36.3 million for 2011 as compared to cash provided by financing activities of \$45.8 million for 2010. The \$9.5 million decrease in net cash provided by financing activities was primarily related to an increase in cash used to settle employee tax withholding liabilities for the vesting of restricted stock awards and restricted stock units of \$8.1 million, a decrease of \$3.5 million in UltiPro Payment Services Customer Funds received and higher payments on capital lease obligations of \$0.5 million, partially offset by lower repurchases of Common Stock (net of proceeds from the issuance of Common Stock from employee and non-employee director stock option exercises) of \$0.9 million and, to a lesser extent, increased excess tax benefits from our employee stock plan of \$1.8 million.

Days sales outstanding ("DSO"), calculated on a trailing three-month basis, as of December 31, 2011 and December 31, 2010, were 71 days and 72 days, respectively. The decrease in DSOs of 1 day was primarily a function of increased revenues and stronger accounts receivable collections.

Deferred revenues were \$86.6 million at December 31, 2011, as compared to \$78.1 million at December 31, 2010. The increase of \$8.5 million in deferred revenues for 2011 was primarily due to higher deferred services revenues and increased deferred SaaS revenues, partially offset by lower deferred maintenance revenues. Substantially all of the total balance in deferred revenues is related to future recurring revenues, including deferred revenues related to SaaS.

Ultimate believes that cash and cash equivalents, investments in marketable securities and cash generated from operations will be sufficient to fund our operations for at least the next 12 months. This belief is based upon, among other factors, management's expectations for future revenue growth, controlled expenses and collections of accounts receivable.

We did not have any material commitments for capital expenditures as of December 31, 2011.

Off-Balance Sheet Arrangements

We do not, and as of December 31, 2011 we did not, have any off-balance sheet arrangements (as that term is defined in applicable SEC rules) that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations

As of December 31, 2011, Ultimate's outstanding contractual cash obligations were as follows (in thousands):

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Capital lease obligations (1)	\$ 5,079	\$ 2,841	\$ 2,238	\$ —	\$ —
Other long-term obligations (2)	27,975	5,082	9,943	8,407	4,543
Purchase obligations (3)	—	—	—	—	—
Other long-term liabilities (4)	1,866	—	—	—	—
Total contractual cash obligations	\$ 34,920	\$ 7,923	\$ 12,181	\$8,407	\$ 4,543

- (1) We lease certain computer equipment under non-cancelable agreements, which are accounted for as capital leases and expire at various dates through 2014. See Note 14 of the Notes to Consolidated Financial Statements included elsewhere in this Form 10-K for information regarding capital lease obligations.
- (2) Included in other long-term obligations were Ultimate's leases for corporate office space and certain equipment under non-cancelable operating lease agreements expiring at various dates. See Note 17 of the Notes to Consolidated Financial Statements included elsewhere in this Form 10-K for information regarding operating lease obligations.
- (3) Purchase orders or contracts for the purchase of goods and services are not included in the table above. Ultimate is not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase rather than binding agreements. Ultimate does not have significant agreements for the purchase of goods or services specifying minimum quantities or set prices.
- (4) Ultimate has an income tax payable related to the benefit of an unrecognized tax position. As of the date of this report, it is not reasonable to estimate the timing of this payment. Ultimate does not have any other long-term liabilities as of December 31, 2011.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

In the ordinary course of Ultimate's operations, we are exposed to certain market risks, primarily interest rate risk and foreign currency risk. Risks that are either non-financial or non-quantifiable, such as political, economic, tax, or regulatory risks, are not included in the following assessment of our market risks.

Interest Rate Risk. Ultimate is subject to financial market risks, including changes in interest rates which influence the valuations of its fixed income investment portfolio. Changes in interest rates could also impact Ultimate's anticipated interest income from interest-bearing cash accounts, or cash equivalents and investments in marketable securities. We manage financial market risks, including interest rate risks, in accordance with our investment guideline objectives, including:

- Maximum safety of principal;
- Maintenance of appropriate liquidity for regular cash needs;
- Maximum yields in relationship to guidelines and market conditions;
- Diversification of risks; and
- Fiduciary control of all investments.

Ultimate targets its fixed income investment portfolio to have maturities of 24 months or less. Investments are held to enhance the preservation of capital and not for trading purposes.

Cash equivalents consist of money market accounts with original maturities of less than three months. Short-term investments include obligations of U.S. government agencies and corporate debt securities. Corporate debt securities include commercial paper which, according to Ultimate's investment guidelines, must carry minimum short-term ratings of P-1 by Moody's Investor Service, Inc. ("Moody's") and A-1 by Standard & Poor's Ratings Service, a Division of The McGraw-Hill Companies, Inc. ("S&P"). Other corporate debt obligations must carry a minimum rating of A-2 by Moody's or A by S&P. Asset-backed securities must carry a minimum AAA rating by Moody's and S&P with a maximum average life of two years at the time of purchase.

As of December 31, 2011, total investments in available-for-sale marketable securities were \$9.1 million.

As of December 31, 2011, virtually all of the investments in Ultimate's portfolio were at fixed rates (with a weighted average interest rate of 0.4% per annum).

To illustrate the potential impact of changes in interest rates, Ultimate has performed an analysis based on its December 31, 2011 consolidated balance sheet and assuming no changes in its investments. Under this analysis, an immediate and sustained 100 basis point increase in the various base rates would result in a decrease in the fair value of Ultimate's total portfolio of approximately \$47 thousand over the next 12 months. An immediate and sustained 100 basis point decrease in the various base rates would result in an increase in the fair value of Ultimate's total portfolio of approximately \$47 thousand over the next 12 months.

Foreign Currency Risk. Ultimate has foreign currency risks related to its revenue and operating expenses denominated in currencies other than the U.S. dollar. Management does not believe movements in the foreign currencies in which Ultimate transacts business will significantly affect future net income.

Item 8. Financial Statements and Supplementary Data

INDEX

	<u>Page(s)</u>
Report of Independent Registered Public Accounting Firm	46
Consolidated Balance Sheets as of December 31, 2011 and 2010	47
Consolidated Statements of Operations for the Years Ended December 31, 2011, 2010 and 2009	48
Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) for the Years Ended December 31, 2011, 2010 and 2009	49
Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2010 and 2009	50
Notes to Consolidated Financial Statements	51

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
The Ultimate Software Group, Inc.:

We have audited the accompanying consolidated balance sheets of The Ultimate Software Group, Inc. and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 29, 2012, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

February 29, 2012
Miami, Florida
Certified Public Accountants

THE ULTIMATE SOFTWARE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2011	2010
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 46,149	\$ 40,889
Investments in marketable securities	7,584	8,884
Accounts receivable, net of allowance for doubtful accounts of \$475 and \$800 for 2011 and 2010, respectively	56,186	47,570
Prepaid expenses and other current assets	22,944	18,613
Deferred tax assets, net	1,277	1,434
Total current assets before funds held for customers	134,140	117,390
Funds held for customers	118,660	72,875
Total current assets	252,800	190,265
Property and equipment, net	24,486	18,075
Capitalized software, net	1,765	3,115
Goodwill	3,025	3,025
Investments in marketable securities	1,546	433
Other assets, net	15,056	11,656
Deferred tax assets, net	20,142	22,988
Total assets	\$ 318,820	\$ 249,557
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,265	\$ 4,683
Accrued expenses	11,589	11,074
Deferred revenue	83,416	71,808
Capital lease obligations	2,694	2,551
Total current liabilities before customer funds obligations	103,964	90,116
Customer funds obligations	118,660	72,875
Total current liabilities	222,624	162,991
Deferred revenue	3,147	6,287
Deferred rent	3,384	3,022
Capital lease obligations	2,175	2,406
Income taxes payable	1,866	1,866
Total liabilities	233,196	176,572
Commitments and contingencies (Note 17)	-	-
Stockholders' equity:		
Series A Junior Participating Preferred Stock, \$0.01 par value, 500,000 shares authorized, no shares issued	-	-
Preferred Stock, \$0.01 par value, 2,000,000 shares authorized, no shares issued	-	-
Common Stock, \$0.01 par value, 50,000,000 shares authorized, 30,204,400 and 29,027,277 shares issued in 2011 and 2010, respectively	302	290
Additional paid-in capital	242,100	216,262
Accumulated other comprehensive (loss) income	(57)	126
Accumulated deficit	(47,971)	(52,253)
	194,374	164,425
Treasury stock, at cost, 3,941,813 and 3,594,825 shares in 2011 and 2010, respectively	(108,750)	(91,440)
Total stockholders' equity	85,624	72,985
Total liabilities and stockholders' equity	\$ 318,820	\$ 249,557

The accompanying Notes to the Consolidated Financial Statements are an integral part of these financial statements

THE ULTIMATE SOFTWARE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,		
	2011	2010	2009
	(in thousands, except per share data)		
Revenues:			
Recurring	\$ 213,785	\$ 170,905	\$ 133,159
Services	53,195	55,368	58,996
License	2,218	1,538	4,125
Total revenues	<u>269,198</u>	<u>227,811</u>	<u>196,280</u>
Cost of revenues:			
Recurring	63,505	49,144	38,765
Services	52,341	49,843	48,304
License	488	255	750
Total cost of revenues	<u>116,334</u>	<u>99,242</u>	<u>87,819</u>
Gross profit	<u>152,864</u>	<u>128,569</u>	<u>108,461</u>
Operating expenses:			
Sales and marketing	63,145	58,374	52,810
Research and development	51,356	42,222	38,005
General and administrative	21,931	19,727	17,803
Total operating expenses	<u>136,432</u>	<u>120,323</u>	<u>108,618</u>
Operating income (loss)	16,432	8,246	(157)
Other (expense) income:			
Interest expense and other	(401)	(263)	(90)
Other income, net	91	188	162
Total other (expense) income, net	<u>(310)</u>	<u>(75)</u>	<u>72</u>
Income (loss) from continuing operations before income taxes	16,122	8,171	(85)
Provision for income taxes	<u>(11,840)</u>	<u>(5,161)</u>	<u>(721)</u>
Income (loss) from continuing operations	4,282	3,010	(806)
Loss from discontinued operations, net of income taxes	-	(853)	(336)
Net income (loss)	<u>\$ 4,282</u>	<u>\$ 2,157</u>	<u>\$ (1,142)</u>
Basic earnings (loss) per share:			
Earnings (loss) from continuing operations	\$ 0.17	\$ 0.12	\$ (0.04)
Loss from discontinued operations	-	(0.03)	(0.01)
Total	<u>\$ 0.17</u>	<u>\$ 0.09</u>	<u>\$ (0.05)</u>
Diluted earnings (loss) per share:			
Earnings (loss) from continuing operations	\$ 0.15	\$ 0.11	\$ (0.04)
Loss from discontinued operations	-	(0.03)	(0.01)
Total	<u>\$ 0.15</u>	<u>\$ 0.08</u>	<u>\$ (0.05)</u>
Weighted average shares outstanding:			
Basic	<u>25,814</u>	<u>24,960</u>	<u>24,463</u>
Diluted	<u>27,806</u>	<u>27,101</u>	<u>24,463</u>

The accompanying Notes to Consolidated Financial Statements
are an integral part of these financial statements.

THE ULTIMATE SOFTWARE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance, December 31, 2008	26,796	\$ 268	\$ 164,574	\$ (1,002)	\$ (53,268)	2,534	\$ (59,500)	\$ 51,072
Net loss	-	-	-	-	(1,142)	-	-	(1,142)
Unrealized gain on investments in marketable securities available-for-sale, net of tax	-	-	-	1	-	-	-	1
Unrealized gain on foreign exchange, net of tax	-	-	-	305	-	-	-	<u>305</u>
Comprehensive loss	-	-	-	-	-	-	-	<u>(836)</u>
Shares acquired to settle employee tax withholding liability	-	-	(373)	-	-	-	-	(373)
Excess tax benefits from employee stock plan	-	-	549	-	-	-	-	549
Repurchases of Common Stock	-	-	-	-	-	451	(12,156)	(12,156)
Issuances of Common Stock from exercises of stock options	824	8	6,270	-	-	-	-	6,278
Non-cash stock-based compensation expense for stock options and restricted stock	-	-	13,236	-	-	-	-	<u>13,236</u>
Balance, December 31, 2009	<u>27,620</u>	<u>\$ 276</u>	<u>\$ 184,256</u>	<u>\$ (696)</u>	<u>\$ (54,410)</u>	<u>2,985</u>	<u>\$ (71,656)</u>	<u>\$ 57,770</u>
Net income	-	-	-	-	2,157	-	-	2,157
Realized foreign currency translation adjustment, net of tax	-	-	-	912	-	-	-	912
Unrealized loss on investments in marketable securities available-for-sale, net of tax	-	-	-	(1)	-	-	-	(1)
Unrealized loss on foreign exchange, net of tax	-	-	-	(89)	-	-	-	<u>(89)</u>
Comprehensive income	-	-	-	-	-	-	-	<u>2,979</u>
Shares acquired to settle employee tax withholding liability	-	-	(2,797)	-	-	-	-	(2,797)
Excess tax benefits from employee stock plan	-	-	6,671	-	-	-	-	6,671
Repurchases of Common Stock	-	-	-	-	-	610	(19,784)	(19,784)
Issuances of Common Stock from exercises of stock options	1,124	11	14,883	-	-	-	-	14,894
Issuances of Common Stock from restricted stock releases	283	3	-	-	-	-	-	3
Non-cash stock-based compensation expense for stock options, restricted stock and restricted stock units	-	-	13,249	-	-	-	-	<u>13,249</u>
Balance, December 31, 2010	<u>29,027</u>	<u>\$ 290</u>	<u>\$ 216,262</u>	<u>\$ 126</u>	<u>\$ (52,253)</u>	<u>3,595</u>	<u>\$ (91,440)</u>	<u>\$ 72,985</u>
Net income	-	-	-	-	4,282	-	-	4,282
Unrealized loss on investments in marketable securities available-for-sale, net of tax	-	-	-	(4)	-	-	-	(4)
Unrealized loss on foreign exchange, net of tax	-	-	-	(179)	-	-	-	<u>(179)</u>
Comprehensive income	-	-	-	-	-	-	-	<u>4,099</u>
Shares acquired to settle employee tax withholding liability	-	-	(10,941)	-	-	-	-	(10,941)
Excess tax benefits from employee stock plan	-	-	8,504	-	-	-	-	8,504
Repurchases of Common Stock	-	-	-	-	-	347	(17,310)	(17,310)
Issuances of Common Stock from exercises of stock options	776	8	13,270	-	-	-	-	13,278
Issuances of Common Stock from restricted stock releases	401	4	-	-	-	-	-	4
Non-cash stock-based compensation expense for stock options, restricted stock and restricted stock units	-	-	15,005	-	-	-	-	<u>15,005</u>
Balance, December 31, 2011	<u>30,204</u>	<u>\$ 302</u>	<u>\$ 242,100</u>	<u>\$ (57)</u>	<u>\$ (47,971)</u>	<u>3,942</u>	<u>\$ (108,750)</u>	<u>\$ 85,624</u>

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

THE ULTIMATE SOFTWARE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2011	2010	2009
	(in thousands)		
Cash flows from operating activities:			
Net income (loss)	\$ 4,282	\$ 2,157	\$ (1,142)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	11,620	11,883	11,806
Provision for doubtful accounts	1,586	1,549	972
Non-cash stock-based compensation expense	15,009	13,249	13,234
Realized loss on foreign currency translation adjustment	-	912	-
Income taxes	11,507	4,982	561
Excess tax benefits from employee stock plan	(8,504)	(6,671)	(549)
Changes in operating assets and liabilities:			
Accounts receivable	(10,202)	(10,669)	(1,120)
Prepaid expenses and other current assets	(4,331)	(3,019)	417
Other assets	(3,483)	362	(851)
Accounts payable	1,582	207	(2,724)
Accrued expenses and deferred rent	877	938	(2,372)
Deferred revenue	8,468	9,536	5,065
Net cash provided by operating activities	28,411	25,416	23,297
Cash flows from investing activities:			
Purchases of marketable securities	(14,610)	(9,223)	(10,040)
Maturities of marketable securities	14,794	9,429	6,323
Net purchases of securities with customer funds	(45,785)	(49,315)	(17,697)
Capitalized software	-	-	(630)
Purchases of property and equipment	(13,671)	(4,980)	(4,011)
Net cash used in investing activities	(59,272)	(54,089)	(26,055)
Cash flows from financing activities:			
Repurchases of Common Stock	(17,310)	(19,784)	(12,156)
Net proceeds from issuances of Common Stock	13,282	14,897	6,278
Excess tax benefits from employee stock plan	8,504	6,671	549
Shares acquired to settle employee tax withholding liabilities	(10,941)	(2,797)	(373)
Principal payments on capital lease obligations	(3,016)	(2,503)	(2,445)
Repayments of borrowings of long-term debt	-	-	(320)
Net increase in customer fund obligations	45,785	49,315	17,697
Net cash provided by financing activities	36,304	45,799	9,230
Effect of exchange rate changes on cash	(183)	79	12
Net increase in cash and cash equivalents	5,260	17,205	6,484
Cash and cash equivalents, beginning of year	40,889	23,684	17,200
Cash and cash equivalents, end of year	\$ 46,149	\$ 40,889	\$ 23,684
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 241	\$ 218	\$ 149
Cash paid for taxes	\$ 604	\$ 203	\$ 175

Supplemental disclosure of non-cash investing and financing activities (in thousands):

- Ultimate entered into capital lease obligations to acquire new equipment totaling \$2,928, \$3,852 and \$2,499 in 2011, 2010 and 2009, respectively
- Ultimate entered into an agreement to purchase source code from a third-party vendor for \$2,000, of which \$500 was paid during 2009. The amount owed under the agreement was fully paid in 2009.
- Ultimate had adjustments of \$173 and \$701 between goodwill and other comprehensive income (loss) (related to foreign currency translation adjustments) during 2010 and 2009, respectively. There was no adjustment between goodwill and other comprehensive income (loss) (related to foreign currency translation adjustments) during 2011.

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

THE ULTIMATE SOFTWARE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations

The Ultimate Software Group, Inc. and subsidiaries (“Ultimate,” “we,” “us” or “our”) is a leading provider of unified human capital management (“HCM”) software-as-a-service (“SaaS”) solutions for global businesses. Ultimate’s UltiPro software (“UltiPro”) is a comprehensive SaaS-or cloud-based solution delivered primarily to organizations based in the United States and Canada and designed to deliver the functionality businesses need to manage the complete employment life cycle from recruitment to retirement. Ultimate’s solutions are marketed as two solution suites based on company size. UltiPro Enterprise (“Enterprise”) is designed to address the needs of companies with 1,000 or more employees. UltiPro Workplace (“Workplace”) is designed for companies with fewer than 1,000 employees. UltiPro is marketed primarily through our Enterprise and Workplace direct sales teams.

2. Basis of Presentation, Consolidation and the Use of Estimates

The accompanying consolidated financial statements of Ultimate have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”).

The consolidated financial statements included herein reflect all adjustments, which are, in the opinion of Ultimate’s management, necessary for a fair presentation of the information for the periods presented. The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include revenue recognition, income taxes, the allowance for doubtful accounts, the valuation of deferred tax assets and long-lived assets, among others discussed below. Actual results could differ from those estimates.

The consolidated financial statements reflect the financial position and operating results of Ultimate and include its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

3. Summary of Significant Accounting Policies and Recent Accounting Pronouncements

Cash and Cash Equivalents

All highly liquid instruments with an original maturity of three months or less when acquired are considered cash equivalents and are comprised of interest-bearing accounts.

Accounts Receivable

Accounts receivable are principally from end-users of Ultimate’s products. We perform credit evaluations of our customers and have recorded allowances for estimated losses. We maintain an allowance for doubtful accounts at an amount estimated to be sufficient to provide adequate protection against losses resulting from collecting less than full payment on accounts receivable. A considerable amount of judgment is required when the realization of receivables is assessed, including assessing the probability of collection and current credit-worthiness of each customer. If the financial condition of our customers were to deteriorate, resulting in a further impairment of their ability to make payments, an additional provision for

doubtful accounts may be required. We charge off uncollectible amounts against the allowance for doubtful accounts in the period in which we determine they are uncollectable.

Funds Held for Customers and Customers' Funds Obligations

Ultimate has the right to market and distribute an independent third party's tax filing solution that Ultimate has branded UltiPro Payment Services. Ultimate's UltiPro Payment Services product provides payment services to our customers. These payment services are being sold directly by us to our customers only on a per-employee-per-month ("PEPM") basis in conjunction with UltiPro, our core product. In connection with our UltiPro Payment Services product, we receive funds from our customers and hold such funds for purposes of paying the appropriate taxing authorities on behalf of such customers. We hold our customers' payment services deposits for the period between collection from our customers and remittance to the applicable taxing authority. These funds held for customers and the corresponding customer funds obligations are included in current assets and current liabilities, respectively, in our consolidated balance sheets as of December 31, 2011 and 2010. We have reported the cash flows from funds received from UltiPro Payment Services customers in the investing activities section of the consolidated statements of cash flows for the years ended December 31, 2011, 2010 and 2009. We have reported the cash flows related to the funds received and paid on behalf of such customers to the applicable taxing authorities in the financing activities section of the consolidated statements of cash flows for the years ended December 31, 2011, 2010 and 2009. The associated PEPM fees for UltiPro Payment Services are included in recurring revenues in the consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009. The associated interest earned was not material for the years ended December 31, 2011, 2010 and 2009.

Fair Value of Financial Instruments

Ultimate's consolidated financial instruments, consisting of cash and cash equivalents, investments in marketable securities, funds held for customers and the related obligations, accounts receivable, accounts payable, and capital lease obligations, approximated fair value as of December 31, 2011 and 2010.

Prepaid Expenses and Other Current Assets

Ultimate's financial statements include prepaid expenses and other current assets which include prepaid commissions on SaaS sales. Prepaid expenses are amortized over the life of the asset (typically within one year) and commissions on SaaS sales are amortized over the initial contract term (typically 24 months) commencing on the day the customer processes its first live payroll using UltiPro (also referred to as going "Live"), which corresponds with the related SaaS revenue recognition. The portion of prepaid commissions that extends beyond one year is classified in other assets, net in the consolidated balance sheets for the years ended December 31, 2011 and 2010.

Goodwill and Other Intangible Assets

Goodwill is not subject to amortization, but is subject to an impairment test at least annually or more frequently if events or circumstances indicate that impairment might exist. Intangible assets with definite lives must be amortized over their estimated useful lives and reviewed for impairment. We completed our annual impairment analysis of goodwill as of December 31, 2011 and determined that goodwill had not been impaired as of December 31, 2011. Our acquired intangible assets with finite lives were fully amortized in 2011.

Long-Lived Assets

We evaluate the carrying value of long-lived assets when indicators of impairment exist. For the year ended December 31, 2011, no such events or circumstances were identified. The carrying value of a long-lived asset is considered impaired when the undiscounted expected future cash flows from such asset (or asset group) are separately identifiable and less than the asset's (or asset group's) carrying value. In that event, a loss is recognized to the extent that the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. For the years ended December 31, 2011, 2010 and 2009, we recorded no impairment of our long-lived assets.

Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation and amortization. Property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets, which range from two to fifteen years. Leasehold improvements and assets under capital leases are amortized over the shorter of the life of the asset or the term of the lease over periods ranging from three to fifteen years. Maintenance and repairs are charged to expense when incurred; betterments are capitalized. Upon the sale or retirement of assets, the cost, accumulated depreciation and amortization are removed from the accounts and any gain or loss is recognized.

Deferred Revenue

Deferred revenue is primarily comprised of deferrals for recurring revenues for SaaS services which are recognized over the term of the related contract as the services are performed, typically two years; maintenance services which have not yet been rendered; implementation consulting services for which the services have not yet been rendered; and subscription revenues which are recognized ratably over the minimum term of the related contract upon the delivery of the product and services.

Guarantees

The standard commercial terms in our sales contracts for UltiPro include an indemnification clause that indemnifies the customer against certain liabilities and damages arising from any claims of patent, copyright, or other proprietary rights of any third party. Due to the nature of the intellectual property indemnification provided to our customers, we cannot estimate the fair value, or determine the total nominal amount, of the indemnification until such time as a claim for such indemnification is made. In the event of a claim made against us under such provision, we evaluate estimated losses for such indemnification considering such factors as the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. To date, Ultimate has not had any claims made against it under such provision and, accordingly, has not accrued any liabilities related to such indemnifications in its consolidated financial statements.

Segment Information

Public companies are required to report selected information about operating segments in annual and interim financial reports to shareholders, as well as related disclosures about an enterprise's business segments, products, services, geographic areas and major customers. Ultimate operates its business as a single segment.

Revenue Recognition

Effective January 1, 2011, we adopted Accounting Standards Update No. 2009-13, “Multiple-Deliverable Revenue Arrangements” (“ASU 2009-13”) on a prospective basis. ASU 2009-13 requires the use of the relative selling price method of allocating the total consideration to units of accounting in a multiple element arrangement and eliminates the residual method. This new accounting principle requires an entity to allocate revenue in an arrangement using the estimated selling price (“ESP”) of deliverables if it does not have vendor-specific objective evidence (“VSOE”) or third-party evidence (“TPE”) of selling price. The adoption of ASU 2009-13 did not have a material impact on our consolidated financial statements.

VSOE is the price charged when the same or similar product or service is sold separately. We define VSOE as a median price of recent stand-alone transactions that are priced within a narrow range.

TPE is determined based on the prices charged by our competitors for a similar deliverable when sold separately. However, due to the difficulty in obtaining sufficient information on competitor pricing and differences in our product offerings when compared with those of our peers, we generally are unable to reliably determine TPE.

ESP is our best estimate of the selling price of an element in a transaction. If we are unable to establish selling price using either VSOE or TPE, we use ESP in our allocation of arrangement consideration. The objective of ESP is to determine the price at which we would transact business if the product or service were sold by us on a stand-alone basis. Our determination of ESP involves the use of a customary discount from the list (or book) price for each element, with the discounted price applied within a narrow range. The customary discount is derived from historical data that has been analyzed to determine trends and patterns. We analyze the customary discount used for determining ESP on no less than an annual basis.

We evaluate each deliverable in our arrangements to determine whether it represents a separate unit of accounting. A deliverable constitutes a separate unit of accounting when it has stand-alone value to our customers. Our products and services qualify as separate units of accounting under ASU 2009-13.

There are two major elements in our multiple element arrangements for the delivery of our SaaS Offering, which are recurring revenues (i.e., SaaS subscription revenues and customer support and maintenance revenues) and services revenues (mostly implementation consulting services). Also included in our total revenues, to a much lesser degree, are license revenues from the employee growth of our previously licensed customers.

For multiple element arrangements, the consideration allocated to SaaS subscription revenues is recognized as recurring revenues over the initial contract period, as those services are delivered, commencing with the Live date of the related product. The consideration allocated to fixed fee implementation services in multiple element arrangements is recognized as services revenues on a percentage of completion basis, using reasonably dependable estimates with respect to milestones achieved (in relation to progression through implementation phases), by product.

Single element arrangements typically consist of renewals for SaaS subscriptions and maintenance agreements. In addition, subsequent to the introduction of the Partners for Life program (in the second half of 2010), implementation services sold on a time and materials basis typically represent single element arrangements. Under these single element arrangements, SaaS subscription and maintenance revenues are recognized over the related renewal period, as the services are delivered, and implementation services are recognized as the services are performed.

We recognize revenues when all of the following criteria are met:

- persuasive evidence of an arrangement exists;
- delivery has occurred;
- the fees are fixed and determinable; and
- collection is considered probable.

If collection is not considered probable, we recognize revenues when the fees are collected. If the fees are not fixed and determinable, we recognize revenues when the fees become due from the customer. If non-standard acceptance periods or non-standard performance criteria are required, we recognize revenue when the acceptance period expires or upon the satisfaction of the acceptance/performance criteria, as applicable.

The majority of services revenues are recognized over the implementation period, which is from the contract execution date until the Live date. SaaS revenues are recognized over the contract term, beginning in the month the customer goes Live. There was no material change to the pattern or timing of revenue recognition for either services or SaaS elements as a result of adopting ASU 2009-13.

Recurring Revenues

Recurring revenues consist of subscription revenues recognized from our SaaS Offering, as well as customer support and maintenance revenues.

- i) SaaS subscription revenues are principally derived from PEPM fees earned from the SaaS Offering and from sales of hosting services on a stand-alone basis to customers who already own a perpetual license (“Base Hosting”). Ongoing PEPM fees from the SaaS Offering and Base Hosting are recognized as subscription revenues as the services are delivered, commencing when the customer goes Live.
- ii) Customer support and maintenance revenues are derived from maintaining, supporting, and providing periodic updates of our software for our hosting services. Since we stopped selling perpetual licenses to our new customers effective April 1, 2009, customer support and maintenance revenues stem from annual renewals.

Under our SaaS Offering, our customers do not have the right to take possession of our software and these arrangements are considered service contracts. Selling price of multiple deliverables in SaaS arrangements is derived for each element based on the guidance provided by ASU 2009-13. The multiple elements that typically exist in SaaS arrangements include hosting services, the right to use UltiPro, maintenance of UltiPro (i.e., product enhancements, updates and customer support) and professional services (i.e., primarily implementation consulting services).

The pricing for the three elements that pertain to recurring revenues (i.e., hosting services, the right to use UltiPro and maintenance of UltiPro) is bundled. Since these three bundled elements are components of recurring revenues in the consolidated statements of operations, allocation of selling price to each of the three elements is not necessary and they are not reported separately. Selling price, which is established through VSOE, for the bundled elements, as a whole, is determined on the basis of renewal pricing, without taking into consideration potential price increases or potential changes in the number of employees of the customer in the future due to the uncertainties surrounding these potential occurrences. These bundled elements are provided on an ongoing basis, represent undelivered elements and are recognized on a monthly basis as the related services are performed, commencing once the customer goes Live.

Services Revenues

Services revenues primarily include revenues from fees charged for implementation consulting services in connection with the implementation of our product solutions and, to a much lesser extent, training of customers in the use of our products and fees for other services, including the provision of payroll-related forms, sales of time clocks and the printing of W-2 forms for certain customers, as well as certain client reimbursable out-of-pocket expenses.

Prior to the introduction of the Partners for Life program in the second half of 2010, our multiple element sales contracts included recurring SaaS revenues, priced on a PEPM basis, and implementation services, priced on a time and materials basis. As the Partners for Life program has evolved (particularly over the course of 2011), we have found that the vast majority of multiple element contracts contain recurring SaaS revenues and implementation consulting services priced on a fixed fee basis. Time and materials implementation consulting services are still sold but, generally, as stand-alone sales not directly related to the basic implementation of the SaaS product. The total arrangement consideration is allocated to services elements in the arrangement based on relative selling prices, using the prices established when the services are sold on a stand-alone basis. Selling price is established through ESP for fixed fee implementation consulting services related to our Partners for Life program.

Revenues from implementation consulting services sold on a fixed-fee basis are recognized using the percentage of completion accounting method, which involves the use of estimates. Percentage of completion is measured at each reporting date based on progress made to date, using reasonably dependable estimates with respect to milestones achieved or billable hours, as applicable.

Revenues from implementation consulting services, billed on a time and materials basis (at an hourly rate), are recognized as these services are performed. Other services are recognized as the product is shipped or as the services are rendered, depending on the specific terms of the related arrangement.

License Revenues

From our inception through March 31, 2009, we sold perpetual licenses of UltiPro, which resulted in license revenues recognized for that period of time. Customer support and maintenance revenues, from previously sold perpetual licenses, are derived from maintaining, supporting, and providing periodic updates of our software. Customer support and maintenance revenues are recognized ratably over the service period, generally one year, and are included in recurring revenues. Annual maintenance renewal fees which occur subsequent to the initial contract period are also recognized ratably over the related service period and are included in recurring revenues.

Since April 1, 2009, sales to new customers are only on a subscription basis (priced and billed to our customers on a PEPM basis). We no longer sell our on-site UltiPro solutions to new customers on a perpetual license basis. We do sell licenses to existing license customers but only in relation to the customer's employee growth. Any such licenses are recognized as license revenues in our consolidated financial statements upon the delivery of the related software product when all significant contractual obligations have been satisfied.

Cost of Revenues

Cost of revenues primarily consists of the costs of recurring and services revenues. Cost of recurring revenues primarily consists of costs to provide maintenance and technical support to our customers, the cost of providing periodic updates and the cost of recurring subscription revenues, including

amortization of capitalized software. Cost of services revenues primarily consists of costs to provide implementation services and, to a lesser degree, training to our customers, costs related to sales of payroll-related forms and costs associated with certain client reimbursable out-of-pocket expenses.

Stock-Based Compensation

Our Amended and Restated 2005 Equity and Incentive Plan (the “Plan”) authorizes the grant of options to non-employee directors, officers and employees of Ultimate to purchase shares of Ultimate’s Common Stock. The Plan also authorizes the grant to such persons of restricted and non-restricted shares of Common Stock, stock appreciation rights, stock units and cash performance awards (collectively, together with stock options, the “Awards”). Prior to the adoption of the Plan, options to purchase shares of Common Stock were issued under our Nonqualified Stock Option Plan (the “Prior Plan”). Beginning in 2009, we began making grants to employees of restricted stock units in lieu of stock options.

As of December 31, 2011, the aggregate number of shares of Common Stock authorized under the Plan and the Prior Plan was 12,500,000 and the aggregate number of shares of Common Stock that were available to be issued under all Awards granted under the Plan was 700,228 shares.

The Plan provides broad discretion to the Compensation Committee of the Board of Directors to create appropriate equity incentives for directors, officers and employees of Ultimate. The Plan is intended to attract and retain talented employees and align employee and stockholder interests.

For purposes of calculating and accounting for stock-based compensation expense (“SBC”) in accordance with ASC 718, “Compensation – Stock Compensation” (“ASC 718”) for restricted stock awards and restricted stock units, we measure compensation based on the closing market price of our Common Stock at the date of grant and it is recognized on a straight-line basis over the vesting period. We estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The weighted-average forfeiture rate is based on historical data.

Rental Costs Incurred in Relation to a Construction Period

We have incurred rental costs associated with operating leases during the construction period. Rental costs incurred during a construction period are costs incurred for the right to control the use of a leased asset during and after construction of a leased asset. Since there is no distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period, rental costs associated with ground or building operating leases that are incurred during a construction period are recognized as rental expense on a straight-line basis.

Income Taxes

We are subject to Federal, foreign and state corporate income taxes. We account for income taxes using an asset and liability approach under which deferred income taxes are provided based upon enacted tax laws and rates applicable to the periods in which the taxes become payable.

We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes.

We assess the likelihood that Ultimate will be able to recover its deferred tax assets. Management considers all available evidence, both positive and negative, including historical levels of pre-tax book

income, expiration of net operating losses, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies, as well as current tax laws and interpretation of current tax laws, in assessing the need for a valuation allowance. If recovery is not likely, we record a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. The available positive evidence at December 31, 2011 included, among other factors, three years of cumulative historical pre-tax book income and a projection of future pre-tax book income and taxable income sufficient to realize all of our remaining deferred tax assets. As a result of our analysis of all available evidence, both positive and negative, at December 31, 2011, it was considered more likely than not that a full valuation allowance for deferred tax assets was not required. See Note 15 for further discussion.

ASC 740, "Income Taxes" ("ASC 740"), clarified the accounting for uncertainty in income taxes recognized in a company's financial statements. Specifically, ASC 740 prescribed a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on the related de-recognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. We recognize interest and penalties accrued related to unrecognized tax benefits as components of our income tax provision. We did not have any interest and penalties accrued upon the adoption of ASC 740, and, as of December 31, 2011 and 2010, we did not have any interest and penalties accrued related to unrecognized tax benefits.

Reimbursable Out-Of-Pocket Expenses

Reimbursable out-of-pocket expenses, which are included in services revenues and cost of services revenues in our accompanying consolidated statements of operations, were \$1.1 million, \$1.0 million and \$1.3 million for 2011, 2010 and 2009, respectively.

Recently Issued Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-08, "*Intangibles – Goodwill and Other*" ("ASU 2011-08"). ASU 2011-08 is an amendment to Accounting Standard Codification ("ASC") 350, "*Intangibles-Goodwill and Other*" ("ASC 350"). As a result of the issuance of ASU 2011-08, an entity is no longer required to calculate the fair value of a reporting unit unless the entity determines, through a qualitative approach, that it is more likely than not that its fair value is less than its carrying amount. An entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after qualitatively assessing the totality of events or circumstances, an entity determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then it is required to perform the two-step impairment test. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. We have evaluated the impact of adopting ASU 2011-08 and determined that the adoption of this ASU will not have an impact on our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, "*Comprehensive Income*" ("ASU 2011-05"). ASU 2011-05 was issued to increase the prominence of items reported in other comprehensive income and to facilitate the convergence of GAAP and International Financial Reporting Standards ("IFRS"). ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate, but consecutive, statements. ASU 2011-05 is effective retrospectively for fiscal years, and interim periods

within those years, beginning after December 15, 2011. Early adoption is permitted. We have evaluated the impact of adopting ASU 2011-05 and determined that the adoption of this ASU will not have an impact on our consolidated financial statements, as it only requires a change in the format of our current presentation of comprehensive income.

In May 2011, the FASB issued ASU 2011-04, “*Fair Value Measurement*” (“ASU 2011-04”). ASU 2011-04 is an amendment to ASC 820, “Fair Value Measurement” (“ASC 820”) to achieve common fair value measurement and disclosure requirements in GAAP and IFRS. ASU 2011-04 changes the wording used to describe the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include (i) those that clarify the intent of the application of existing fair value measurement and disclosure requirements and (ii) those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. ASU 2011-04 is effective prospectively for interim and annual periods beginning after December 15, 2011. We have evaluated the impact of adopting ASU 2011-04 and determined that the adoption of this ASU will not have a material impact on our consolidated financial statements.

4. Discontinued Operations

During the year ended December 31, 2010, Ultimate discontinued and liquidated the operations of The Ultimate Software Group UK Limited, our wholly-owned subsidiary in the United Kingdom (the “UK Subsidiary”).

Discontinued operations, net of income taxes, for the years ended December 31, 2010 and 2009 resulted in a loss of \$0.9 million and \$0.3 million, respectively. There was no loss from discontinued operations for the year ended December 31, 2011. The loss from discontinued operations, net of income taxes, of \$0.9 million for the year ended December 31, 2010, was principally from the realization of a non-cash foreign currency translation adjustment. The discontinuation of the operations of the UK Subsidiary was completed as of September 30, 2010.

The financial results of discontinued operations of the UK Subsidiary are as follows (in thousands):

	For the Years Ended December 31,		
	2011	2010	2009
Total revenues	\$ –	\$ 51	\$ 299
Pretax loss from UK Subsidiary operations	\$ –	\$ (85)	\$ (472)
Loss from disposal of UK Subsidiary (primarily for foreign currency translation adjustment)	–	(912)	–
Pretax loss from discontinued operations	–	(997)	(472)
Income tax benefit	–	144	136
Loss from discontinued operations, net of income taxes	<u>\$ –</u>	<u>\$ (853)</u>	<u>\$ (336)</u>

The assets and liabilities of the UK Subsidiary were immaterial, both individually and in the aggregate, and, therefore, are not presented separately.

5. Investments in Marketable Securities and Fair Value of Financial Instruments

We classify our investments in marketable securities with readily determinable fair values as available-for-sale. Available-for-sale securities consist of debt and equity securities not classified as trading securities or as securities to be held to maturity. Unrealized gains and losses, net of tax, on available-for-sale securities are reported as a net amount in accumulated other comprehensive income in stockholders' equity until realized. Gains and losses on the sale of available-for-sale securities are determined using the specific identification method. Included in accumulated other comprehensive income was \$3 thousand and \$7 thousand of net unrealized gains, net of tax, on available-for-sale securities at December 31, 2011 and December 31, 2010, respectively.

The amortized cost, net unrealized gain (loss) and fair value of our investments in marketable available-for-sale securities as of December 31, 2011 and December 31, 2010 are shown below (in thousands):

	As of December 31, 2011			As of December 31, 2010		
	Amortized Cost	Net Unrealized Gain (Loss)	Fair Value	Amortized Cost	Net Unrealized Gain	Fair Value
Corporate debentures – bonds	\$ 2,569	\$ (3)	\$ 2,566	\$ 2,903	\$ 4	\$ 2,907
Commercial paper	1,799	–	1,799	2,599	–	2,599
U.S. Agency bonds	2,763	1	2,764	1,513	1	1,514
U.S. Treasury bills	1,206	5	1,211	1,504	2	1,506
Non U.S. government bond	–	–	–	301	–	301
Certificates of deposit	790	–	790	490	–	490
Total investments	<u>\$ 9,127</u>	<u>\$ 3</u>	<u>\$ 9,130</u>	<u>\$ 9,310</u>	<u>\$ 7</u>	<u>\$ 9,317</u>

The amortized cost and fair value of the marketable available-for-sale securities by contractual maturity at December 31, 2011 is shown below (in thousands):

	As of December 31, 2011	
	Amortized Cost	Fair Value
Due in one year or less	\$ 7,585	\$ 7,584
Due after one year	1,542	1,546
Total	<u>\$ 9,127</u>	<u>\$ 9,130</u>

We classify and disclose fair value measurements in one of the following three categories of fair value hierarchy:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets and liabilities.
- Level 2: Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Our assets that are measured by management at fair value on a recurring basis are generally classified within Level 1 or Level 2 of the fair value hierarchy. The types of instruments valued based on quoted market prices in active markets include most money market securities and certificates of deposit. Such instruments are generally classified within Level 1 of the fair value hierarchy. We did not have any transfers into and out of Level 1 and Level 2 during the years ended December 31, 2011, 2010 and 2009.

The types of instruments valued by management, based on quoted prices in less active markets, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency, include corporate debentures and bonds, commercial paper, U.S. agency bonds, U.S. Treasury bills and a non U.S. government bond. Such instruments are generally classified within Level 2 of the fair value hierarchy. We use consensus pricing, which is based on multiple pricing sources, to value our fixed income investments. The following table sets forth, by level within the fair value hierarchy, financial assets accounted for at fair value as of December 31, 2011 and December 31, 2010 (in thousands):

The following table sets forth, by level within the fair value hierarchy, financial assets and liabilities accounted for at fair value as of December 31, 2011 and December 31, 2010 (in thousands):

	As of December 31, 2011				As of December 31, 2010			
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Un-Observable Inputs (Level 3)	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Un-Observable Inputs (Level 3)
Corporate debentures and bonds	\$ 2,566	\$ -	\$ 2,566	\$ -	\$2,907	\$ -	\$ 2,907	\$ -
Commercial paper	1,799	-	1,799	-	2,599	-	2,599	-
U.S. Agency bonds	2,764	-	2,764	-	1,514	-	1,514	-
U.S. Treasury bills	1,211	-	1,211	-	1,506	-	1,506	-
Non-U.S. government bond	-	-	-	-	301	-	301	-
Certificates of deposit	790	790	-	-	490	490	-	-
Total	\$9,130	\$ 790	\$8,340	\$ -	\$9,317	\$ 490	\$8,827	\$ -

Assets and liabilities measured at fair value on a recurring basis were presented in the consolidated balance sheets as of December 31, 2011 and as of December 31, 2010 as short-term and long-term investments in marketable securities. There were no financial liabilities accounted for at fair value as of December 31, 2011 and December 31, 2010.

6. Allowance for Doubtful Accounts

We have established an allowance for doubtful accounts based on a review of the current status of existing accounts receivable by customer and historical experience.

The activity within allowance for doubtful accounts was as follows (in thousands):

	For the Years Ended December 31,		
	2011	2010	2009
Balance at beginning of year	\$ 800	\$ 600	\$ 700
Charged to expenses and other	1,586	1,549	972
Write-offs and other	(1,911)	(1,349)	(1,072)
Balance at end of year	<u>\$ 475</u>	<u>\$ 800</u>	<u>\$ 600</u>

7. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following (in thousands):

	As of December 31,	
	2011	2010
Prepaid commissions on SaaS sales	\$ 13,910	\$ 12,623
Other prepaid expenses	3,999	3,432
Other current assets	5,035	2,558
Total prepaid expenses and other current assets	<u>\$ 22,944</u>	<u>\$ 18,613</u>

8. Property and Equipment

Property and equipment consists of the following (in thousands):

	As of December 31,	
	2011	2010
Computer equipment	\$ 75,393	\$66,735
Leasehold improvements	12,771	9,134
Furniture and fixtures	7,172	3,960
Building	929	929
Land	655	655
Property and equipment	96,920	81,413
Less: accumulated depreciation and amortization	72,434	63,338
Property and equipment, net	<u>\$ 24,486</u>	<u>\$ 18,075</u>

Depreciation and amortization expense on property and equipment, including depreciation and amortization expense on property and equipment under capital leases, totaled \$10.2 million, \$10.3 million and \$10.3 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Included in property and equipment is computer equipment acquired under capital leases as follows (in thousands):

	As of December 31,	
	2011	2010
Computer equipment	\$ 25,727	\$ 22,799
Less: accumulated amortization	22,476	19,457
	<u>\$ 3,251</u>	<u>\$ 3,342</u>

Depreciation and amortization expense on property and equipment under capital leases totaled \$3.0 million, \$2.5 million and \$2.4 million for the years ended December 31, 2011, 2010 and 2009, respectively.

9. Foreign Currency

The financial statements of Ultimate's foreign subsidiaries have been translated into U.S. dollars. The functional currency of our wholly-owned subsidiary, The Ultimate Software Group of Canada, Inc., is the Canadian dollar and the functional currency of the dissolved UK Subsidiary was the British pound. Assets and liabilities are translated into U.S. dollars at period-end exchange rates. Income and expenses are translated at the average exchange rate for the reporting period. The resulting non-cash foreign currency translation adjustments, representing unrealized gains or losses, are included in consolidated stockholders' equity as a component of accumulated other comprehensive income (loss). Realized gains and losses resulting from foreign exchange transactions are included in total operating expenses in the consolidated statements of operations.

Included in comprehensive income (loss) for the years ended December 31, 2011, 2010 and 2009 were realized foreign currency translation losses and unrealized foreign currency translation gains (losses), as follows (in thousands):

	For the Years Ended December 31,		
	2011	2010	2009
Realized foreign currency translation (losses)	<u>\$ -</u>	<u>\$ (912)</u>	<u>\$ -</u>
Unrealized foreign currency translation gains (losses)	<u>\$ (179)</u>	<u>\$ (89)</u>	<u>\$ 305</u>

10. Software Development Costs

We capitalize certain software development costs incurred subsequent to the establishment of technological feasibility. Based on Ultimate's product development process, technological feasibility is established upon the completion of a working model. There were no research and development expenses capitalized in 2011 and 2010. During 2009, a total of \$0.1 million of research and development expenses were capitalized in relation to UltiPro Onboarding, which is a product that handles certain human resources functionality for new hires of a company, and had its general release in the first quarter of 2009. Annual amortization is based on the greater of the amount computed using (a) the ratio that current gross revenues for the related product bears to the total of current and anticipated future gross revenues for that product or (b) the straight-line method over the remaining estimated economic life of the product including the period being reported on.

Capitalized software is amortized using the straight-line method over the estimated useful lives of the assets, which are typically five years. Capitalized software and accumulated amortization of capitalized software were as follows (in thousands):

	For the Years Ended December 31,		
	2011	2010	2009
Capitalized software	\$ 11,342	\$ 11,342	\$ 11,342
Less: accumulated amortization	9,577	8,227	6,879
Capitalized software, net	<u>\$ 1,765</u>	<u>\$ 3,115</u>	<u>\$ 4,463</u>

Amortization of capitalized software was \$1.3 million, \$1.3 million and \$1.3 million in 2011, 2010 and 2009, respectively, and is included within cost of recurring revenues in the consolidated statements of operations.

Future amortization for capitalized software at December 31, 2011 is as follows (in thousands):

<u>Year</u>	<u>Amount</u>
2012	\$ 1,257
2013	508
	<u>\$ 1,765</u>

Ultimate evaluates the recoverability of capitalized software based on estimated future gross revenues reduced by the estimated costs of completing the products and of performing maintenance and customer support. If Ultimate's gross revenues were to be significantly less than its estimates, the net realizable value of Ultimate's capitalized software intended for sale would be impaired, which could result in the write-off of all or a portion of the unamortized balance of such capitalized software.

11. Earnings Per Share

Earnings per share calculations require a dual presentation — “basic” and “diluted.” Basic earnings per share is computed by dividing income available to common stockholders (the numerator) by the weighted average number of common shares (the denominator) for the period. The computation of diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

The following is a reconciliation of the shares used in the computation of basic and diluted net income (loss) per share (in thousands):

	For the Years Ended December 31,		
	2011	2010	2009
Basic weighted average shares outstanding	25,814	24,960	24,463
Effect of dilutive equity instruments	1,992	2,141	—
Dilutive shares outstanding	<u>27,806</u>	<u>27,101</u>	<u>24,463</u>
Options to purchase shares of Common Stock and other stock-based awards outstanding which are not included in the calculation of diluted income (loss) per share because their impact is anti-dilutive	<u>33</u>	<u>25</u>	<u>6,161</u>

12. Comprehensive Income (Loss)

Comprehensive income (loss) represents all changes in equity that result from transactions and other economic events in a period other than transactions with owners. Accumulated other comprehensive income (loss), as presented in the consolidated balance sheets, consists of unrealized gains and losses on available-for-sale securities and foreign currency translation adjustments, net of any related income tax.

Comprehensive income (loss) for the years ended December 31, 2011, 2010 and 2009 was as follows (in thousands):

	For the Years Ended December 31,		
	2011	2010	2009
Net income (loss) (1)	\$ 4,282	\$ 2,157	\$ (1,142)
Other comprehensive income (loss):			
Realized foreign currency translation adjustment	–	912	–
Unrealized (loss) gain on investments in marketable securities available-for-sale	(4)	(1)	1
Unrealized (loss) gain on foreign currency translation adjustments	(179)	(89)	305
Comprehensive income (loss)	<u>\$ 4,099</u>	<u>\$ 2,979</u>	<u>\$ (836)</u>

- (1) The amount attributable to the UK Subsidiary and accumulated in the foreign currency translation adjustment component of equity became realized in the consolidated statements of operations during the year ended December 31, 2010, the period in which discontinuation of the operations for the UK Subsidiary was completed.

13. Goodwill and Intangible Assets

Goodwill represents the excess of cost over the net tangible and identifiable intangible assets of acquired businesses. Identifiable intangible assets acquired in business combinations are recorded based upon fair value at the date of acquisition. Goodwill consists of the following (in thousands):

	As of December 31,	
	2011	2010
Goodwill, beginning balance	\$ 3,025	\$ 3,198
Impact of foreign currency translation	–	(173)
Goodwill, ending balance	<u>\$ 3,025</u>	<u>\$ 3,025</u>

Ultimate acquired its UK Subsidiary on October 5, 2006 and discontinued the operations of the UK Subsidiary during the year ended December 31, 2010. Upon acquisition, Ultimate acquired certain intangibles for developed technology and customer relationships. The values assigned to each of the intangible assets included in the UK Subsidiary valuation were based on an income approach valuation methodology. The income approach presumes that the value of an asset can be estimated by the net economic benefit (i.e., cash flows) to be received over the life of the asset, discounted to present value.

As of December 31, 2011, Ultimate's intangible assets were fully amortized and therefore they were no longer classified in other assets in our consolidated balance sheet as of December 31, 2011.

As of December 31, 2010, Ultimate's intangible assets had estimated useful lives and were classified in other assets, net, in our consolidated balance sheet as of December 31, 2010 as follows (in thousands):

	<u>Estimated Useful Lives</u>	<u>Balance as of December 31, 2010</u>
Acquired intangible assets:		
Developed technology	1 year	\$83

Due to discontinuing the operations of the UK Subsidiary, the amortization of intangible assets related to customer relationships was accelerated during 2010. There were no changes made to the amortization of the developed technology intangible asset as this technology has been and will continue to be leveraged into the UltiPro suite of products.

Amortization expense for the acquired intangible assets reflected above was \$83 thousand, \$281 thousand and \$221 thousand for the years ended December 31, 2011, 2010 and 2009, respectively. As of December 31, 2011, there is no future amortization expense for acquired intangible assets.

14. Capital Lease Obligations

We lease certain equipment under non-cancelable agreements, which are accounted for as capital leases and expire at various dates through 2014. Interest rates on these leases range from 4.25% to 4.62%. The scheduled lease payments of the capital lease obligations are as follows as of December 31, 2011 (in thousands):

<u>Year</u>	<u>Amount</u>
2012	\$ 2,841
2013	1,718
2014	520
	<u>5,079</u>
Less amount representing interest	(210)
Lease obligations reflected as current (\$2,694) and non-current (\$2,175)	<u>\$ 4,869</u>

15. Income Taxes

For the year ended December 31, 2011, the income tax provision of \$11.8 million was based on book income from continuing operations before income taxes of \$16.1 million. For the year ended December 31, 2010, the income tax provision of \$5.2 million was based on book income from continuing operations before income taxes of \$8.2 million. For the year ended December 31, 2009, the income tax provision of \$0.7 million was based on a book loss from continuing operations before income taxes of \$0.1 million. Deferred tax assets and liabilities are determined based on the difference between financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

The income tax (provision) benefit consists of the following (in thousands):

	For the Year Ended December 31,		
	2011	2010	2009
Current taxes:			
Federal	\$ (7,339)	\$ (7,276)	\$ —
State and local	(1,602)	(1,408)	(24)
Foreign	(139)	(102)	—
Deferred taxes, net			
Federal	(2,541)	3,094	(369)
State and local	(237)	564	(29)
Foreign	18	(33)	(299)
Income tax provision	<u>\$ (11,840)</u>	<u>\$ (5,161)</u>	<u>\$ (721)</u>

The income tax (provision) benefit is different from that which would be obtained by applying the statutory federal income tax rate of 35% to income (loss) from continuing operations before income taxes as a result of the following (in thousands):

	For the Year Ended December 31,		
	2011	2010	2009
Income tax (provision) benefit at statutory federal tax rate	\$ (5,642)	\$ (2,860)	\$ 30
State and local income taxes, net of the federal benefit	(1,195)	(548)	(20)
Non-deductible expenses	(4,920)	(1,782)	(662)
Change in tax rates	28	27	34
Change in foreign valuation allowance	—	85	(103)
Other, net	(111)	(83)	—
Income tax provision	<u>\$ (11,840)</u>	<u>\$ (5,161)</u>	<u>\$ (721)</u>

Deferred tax assets and liabilities reflect the net effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities at December 31, 2011, 2010 and 2009 were as follows (in thousands):

	As of December 31,		
	2011	2010	2009
Deferred tax assets:			
Net operating losses	\$ —	\$ —	\$ 4,886
Tax credit carryforwards	127	127	224
Deferred revenue	2,501	3,362	3,849
Accruals not currently deductible	356	239	213
Allowance for doubtful accounts	166	292	233
Charitable contributions	524	264	234
Stock-based compensation	22,217	21,258	17,608
Deferred rent adjustment	1,322	1,171	1,235
Gross deferred tax assets	<u>27,213</u>	<u>26,713</u>	<u>28,482</u>
Less valuation allowance	—	—	(4,972)
Deferred tax assets	<u>\$ 27,213</u>	<u>\$ 26,713</u>	<u>\$ 23,510</u>
Deferred tax liabilities:			
Property and equipment	\$ (5,890)	\$ (1,836)	\$ (1,391)
Acquired intangible assets	—	(32)	(141)
Software development costs	111	(415)	(1,099)
Other, net	(15)	(8)	(15)
Gross deferred tax liabilities	<u>(5,794)</u>	<u>(2,291)</u>	<u>(2,646)</u>
Net deferred tax assets	<u>\$ 21,419</u>	<u>\$ 24,422</u>	<u>\$ 20,864</u>

Ultimate considers all available evidence, both positive and negative, including historical levels of pre-tax book income, expiration of net operating loss carryforwards, expectations and risks associated with estimates of future taxable income, ongoing prudent and feasible tax planning strategies and reversal of deferred tax liabilities in assessing the need for the valuation allowance. If it is not more likely than not that we will recover our deferred tax assets, we will increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable.

The available positive evidence at December 31, 2011 included, among other factors, three years of cumulative historical pre-tax book income and a projection of future pre-tax book income and taxable income. As a result of our analysis of all available evidence, both positive and negative, we believe that it is more likely than not that the results of future operations will generate sufficient taxable income to realize all of the deferred tax assets as of December 31, 2011.

There was no valuation allowance for the years ended December 31, 2011 and 2010. The net decrease in the valuation allowance for the year ended December 31, 2010 was \$5.0 million, \$4.7 million relating primarily to the recognition of stock-based payment deductions in stockholders' equity and a \$0.3 million decrease relating to foreign operations. The write-off of the valuation allowance attributable to discontinued operations for the UK Subsidiary accounted for \$0.2 million of the \$0.3 million decrease. The net decrease in the valuation allowance for the year ended December 31, 2009 was \$0.7 million, an \$0.8 million decrease relating primarily to the recognition of stock-based payment deductions in stockholders' equity and a \$0.1 million increase relating to foreign operations.

The activity within the valuation allowance for deferred tax assets was as follows (in thousands):

	For the Years Ended December 31,		
	2011	2010	2009
Balance at beginning of year	\$ -	\$ 4,972	\$ 5,657
Charged to expenses and other	-	(4,663)	(789)
Write-offs and other	-	(309)	104
Balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,972</u>

Management continues to apply the Exception to the Comprehensive Recognition of Deferred Income Taxes to the undistributed earnings of our foreign subsidiary, Ultimate Canada. The Comprehensive Recognition of Deferred Income Taxes presumes that all undistributed earnings will be transferred to the parent entity. This presumption may be overcome by the parent entity, and no income taxes would be accrued, if sufficient evidence shows that the subsidiary has invested or will invest the undistributed earnings indefinitely or that the earnings will be remitted in a tax-free liquidation. A parent entity shall have evidence of specific plans for reinvestment of undistributed earnings of a subsidiary which demonstrates that remittance of the earnings will be postponed indefinitely. These criteria required to overcome the presumption are sometimes referred to as the indefinite reversal criteria. Accordingly, deferred income taxes were not recognized on the undistributed earnings of Ultimate Canada. The cumulative undistributed earnings are not deemed material.

At December 31, 2011, we had approximately \$112.8 million of net operating loss carryforwards for federal income tax reporting purposes available to offset future taxable income. The \$112.8 million was attributable to deductions from the exercise of non-qualified employee, and non-employee director, stock options and the vesting of restricted stock units and restricted stock awards, the tax benefit of which

will primarily be credited to paid-in-capital and deferred tax asset when realized. As a result, the tax benefits associated with stock based compensation are included in net operating loss carryforwards but not reflected in deferred tax assets. During 2011, we realized a tax benefit of \$8.8 million comprised of an \$8.5 million and a \$0.3 million credit to paid-in-capital and deferred tax asset, respectively. As of December 31 2011, we did not have any net operating loss carryforwards for foreign income tax reporting purposes available to offset future taxable income. The carryforwards expire from 2012 through 2031. Utilization of such net operating loss carryforwards may be limited as a result of cumulative ownership changes in Ultimate's equity instruments.

ASC 740, "Income Taxes," ("ASC 740") requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. As of December 31, 2011, we had gross unrecognized tax benefits of approximately \$1.9 million, all of which would impact the effective tax rate if recognized. While it is often difficult to predict the final outcome of any particular uncertain tax position, management does not believe that it is reasonably possible that the estimates of unrecognized tax benefits will change significantly in the next twelve months.

Tax years 1997 to 2010 remain subject to future examination by the major tax jurisdictions in which we are subject to tax.

We recognize interest and penalties accrued related to unrecognized tax benefits as components of our income tax provision. We did not have any interest and penalties accrued upon the adoption of ASC 740, and, as of December 31, 2011 and 2010, we did not have any interest and penalties accrued related to unrecognized tax benefits.

A reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, 2011, 2010 and 2009 is as follows (in thousands):

	<u>As of December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Balance at January 1,	\$ 1,866	\$ -	\$ -
Tax positions taken in prior period			
Gross increases	-	-	-
Gross decreases	-	-	-
Tax positions taken in current period			
Gross increases	-	1,866	-
Settlements	-	-	-
Statute expiration	-	-	-
Balance at December 31,	<u>\$ 1,866</u>	<u>\$ 1,866</u>	<u>\$ -</u>

16. Stock-Based Compensation and Equity

Summary of Plans

Our Amended and Restated 2005 Equity and Incentive Plan (the "Plan") authorizes the grant of options to non-employee directors, officers and employees of Ultimate to purchase shares of Ultimate's Common Stock ("Options"). The Plan also authorizes the grant to such persons of restricted and non-restricted shares of Common Stock, stock appreciation rights, stock units and cash performance awards

(collectively, together with the Options, the “Awards”). Prior to the adoption of the Plan, options to purchase shares of Common Stock were issued under Ultimate’s Nonqualified Stock Option Plan (the “Prior Plan”). Beginning in 2009, we commenced making grants to employees of restricted stock grants in lieu of Options.

As of December 31, 2011, the aggregate number of shares of Common Stock authorized under the Plan and the Prior Plan was 12,500,000 and the aggregate number of shares of Common Stock that were available to be issued under all Awards granted under the Plan was 700,228 shares.

Stock-Based Compensation

The following table sets forth the stock-based compensation resulting from stock-based arrangements that is recorded in our consolidated statements of operations for the periods indicated (in thousands):

	For the Years Ended December 31,		
	2011	2010	2009
Cost of recurring revenues	\$ 1,402	\$ 914	\$ 689
Cost of services revenues	1,464	1,238	1,316
Sales and marketing	6,824	6,678	7,059
Research and development	1,625	1,218	1,228
General and administrative	3,694	3,201	2,942
Total stock-based compensation	<u>\$ 15,009</u>	<u>\$ 13,249</u>	<u>\$ 13,234</u>

Net cash proceeds from the exercise of Options were \$13.3 million, \$14.9 million and \$6.3 million for the years ended December 31, 2011, 2010, and 2009, respectively. There was an \$8.5 million, a \$6.7 million and a \$0.5 million income tax benefit recognized in additional paid in capital from the realization of excess stock-based payment deductions during the years ended December 31, 2011, 2010 and 2009, respectively.

Fair Value

There were no Options granted during the years ended December 31, 2011, 2010 and 2009. The fair value of restricted stock awards and restricted stock units is equal to the closing price of our Common Stock on NASDAQ on the date of grant.

We estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The weighted-average forfeiture rate for the years ended December 31, 2011, 2010 and 2009 was based on historical data.

Options

Options granted to officers and employees under the Plan and the Prior Plan generally have a 10-year term, vesting 25% immediately and 25% on each of the first three anniversaries of the grant date. Options granted to non-employee directors under the Plan and the Prior Plan generally have a 10-year term and vest and become exercisable immediately on the grant date. However, certain Options granted to non-employee directors for board services during the period January 3, 2005 through July 2, 2007 become exercisable on the earliest of (i) the fifth anniversary of the date of grant, (ii) the 90th day after the date on

which the director ceases to be a member of the Board of Directors of Ultimate (the “Board”) or (iii) the effective date of a change in control of Ultimate.

Restricted Stock Awards

Under the provisions of the Plan, Ultimate may, at the discretion of the Compensation Committee or the Board, grant restricted stock awards (“Restricted Stock Awards”) to officers, employees and non-employee directors. The shares of Common Stock issued under Restricted Stock Awards are subject to certain vesting requirements and restrictions on transfer. During the years ended December 31, 2011, 2010 and 2009, we granted Restricted Stock Awards for 193,625, 134,750 and 175,000 shares, respectively, of Common Stock to officers and employees and we granted Restricted Stock Awards for 23,289, 30,816 and 37,235 shares, respectively, of Common Stock to non-employee directors. Compensation expense for Restricted Stock Awards is measured based on the closing market price of our Common Stock at the date of grant and is recognized on a straight-line basis over the vesting period. Holders of Restricted Stock Awards have all rights of a stockholder including the right to vote the shares and receive all dividends and other distributions paid or made with respect thereto. Each Restricted Stock Award becomes vested on the fourth anniversary of the respective date of grant, subject to the grantee’s continued employment with Ultimate or any of its subsidiaries on each such vesting date and subject further to accelerated vesting in the event of a change in control of Ultimate, death or disability, the termination of employment by Ultimate without cause or, in the case of a non-employee director, at cessation of his board services at the end of his term. Included in our consolidated statements of operations for the years ended December 31, 2011, 2010, and 2009 was \$8.4 million, \$8.0 million and \$7.9 million, respectively, of compensation expense for Restricted Stock Awards.

Restricted Stock Unit Awards

Ultimate may, at the discretion of the Compensation Committee, make Awards of stock units or restricted stock units under the Plan (“Restricted Stock Unit Awards”) to certain officers and employees. A Restricted Stock Unit Award is a grant of a number of hypothetical share units with respect to shares of Common Stock that are subject to vesting and transfer restrictions and conditions under a restricted stock unit award agreement. The value of each unit is equal to the fair value of one share of Common Stock on any applicable date of determination. The payment with respect to each unit under a Restricted Stock Unit Award may be made, at the discretion of the Compensation Committee, (i) in a number of shares of our Common Stock equal to the number of Restricted Stock Units becoming vested, (ii) in cash, in an amount equal to the fair market value of a share of our Common Stock on the vesting date multiplied by the number of restricted stock units becoming vested on such date or (iii) in a combination of both. The grantee of a Restricted Stock Unit Award does not have any rights as a stockholder with respect to the shares subject to a Restricted Stock Unit Award until such time as shares of Common Stock are delivered to the grantee pursuant to the terms of the related stock unit award agreement.

Beginning in 2009, we commenced granting Restricted Stock Unit Awards to employees and discontinued the grant of Options under the Plan. Such Restricted Stock Unit Awards vest in three equal annual installments of 33-1/3% of the number of Restricted Stock Unit Awards on each of the first three anniversaries of the date of grant thereof, subject to the participant’s continued employment with Ultimate or any of its subsidiaries on each such vesting date, and shall be payable as described above, provided, however, that if any such anniversary is not a date on which our Common Stock is traded on NASDAQ, then the vesting date shall be the last such trading day immediately preceding such anniversary; and provided further, however, that if the Chief Financial Officer (“CFO”) of Ultimate should determine that any such anniversary falls within a period during which the participant is prohibited from trading Ultimate’s Common Stock under our stock trading policy, the CFO shall so advise the participant in writing and the vesting date shall be the date as of which the CFO has determined that such period has ended.

There were 242,062, 199,525 and 211,635 Restricted Stock Unit Awards granted to employees during the years ended December 31, 2011, 2010 and 2009, respectively. Non-cash stock-based compensation expense for Restricted Stock Unit Awards is measured based on the fair market value of our Common Stock on the date of grant and recognized on a straight-line basis over the vesting period. Included in Ultimate's consolidated statements of operations for the years ended December 31, 2011, 2010 and 2009 was \$5.9 million, \$2.4 million and \$0.9 million, respectively, of non-cash compensation expense for Restricted Stock Unit Awards.

Option, Restricted Stock and Restricted Stock Unit Activity

The following table summarizes Option activity for the years ended December 31, 2009, 2010 and 2011, as follows (in thousands, except per share amounts):

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2008	4,964	\$ 16.86		
Granted	—	—		
Exercised	(668)	9.40		
Forfeited or expired	(131)	24.94		
Outstanding at December 31, 2009	<u>4,165</u>	<u>\$17.79</u>	<u>5.55</u>	<u>\$ 49,687</u>
Exercisable at December 31, 2009	<u>3,576</u>	<u>\$16.12</u>	<u>5.15</u>	<u>\$ 48,360</u>
Outstanding at December 31, 2009	4,165	\$ 17.79		
Granted	—	—		
Exercised	(1,124)	13.25		
Forfeited or expired	(26)	27.58		
Outstanding at December 31, 2010	<u>3,015</u>	<u>\$19.40</u>	<u>5.07</u>	<u>\$ 88,136</u>
Exercisable at December 31, 2010	<u>2,807</u>	<u>\$18.71</u>	<u>4.90</u>	<u>\$ 83,989</u>
Outstanding at December 31, 2010	3,015	\$ 19.40		
Granted	—	—		
Exercised	(776)	17.11		
Forfeited or expired	(16)	19.58		
Outstanding at December 31, 2011	<u>2,223</u>	<u>\$20.20</u>	<u>4.27</u>	<u>\$ 99,850</u>
Exercisable at December 31, 2011	<u>2,219</u>	<u>\$20.20</u>	<u>4.27</u>	<u>\$ 99,850</u>

The aggregate intrinsic value of Options in the table above represents total pretax intrinsic value (i.e., the difference between the closing price of our Common Stock on the last trading day of the reporting period and the exercise price, times the number of shares) that would have been received by the Option holders had all Option holders exercised their Options on December 31, 2011. The amount of the aggregate intrinsic value changes, based on the fair value of our Common Stock. Total intrinsic value of Options exercised during the years ended December 31, 2011, 2010 and 2009 was \$31.2 million, \$25.1

million and \$10.1 million, respectively. Total fair value of Options vested during the years ended December 31, 2011, 2010 and 2009 was \$2.3 million, \$4.2 million, \$5.7 million, respectively.

As of December 31, 2011, there was no total unrecognized compensation cost related to non-vested Options expected to be recognized.

The following table summarizes Restricted Stock and Restricted Stock Unit Award activity for the years ended December 31, 2009, 2010 and 2011, as follows (in thousands, except per share amounts):

	Restricted Stock		Restricted Stock Units
		Weighted Average Grant Date Fair Value	
	Shares		Shares
Outstanding at December 31, 2008	1,361	\$ 23.09	45
Granted	212	26.55	211
Vested	—	—	—
Released	(169)	16.86	—
Forfeited or expired	—	—	(9)
Outstanding at December 31, 2009	1,404	\$ 24.36	247
Granted	166	40.51	200
Vested	—	—	—
Released	(263)	23.16	(95)
Forfeited or expired	—	—	(16)
Outstanding at December 31, 2010	1,307	\$ 26.64	336
Granted	217	62.62	242
Vested	—	—	—
Released	(479)	32.89	(126)
Forfeited or expired	—	—	(23)
Outstanding at December 31, 2011	1,045	\$ 31.25	429

As of December 31, 2011, \$21.4 million of total unrecognized compensation cost related to non-vested Restricted Stock Awards is expected to be recognized over a weighted average period of 1.9 years. As of December 31, 2011, \$11.4 million of total unrecognized compensation costs related to non-vested Restricted Stock Unit Awards is expected to be recognized over a weighted average period of 1.7 years.

The following table summarizes information with respect to Options outstanding and Options exercisable under the Plan at December 31, 2011:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Weighted-Average Remaining Contractual Term (Years)	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
\$0.89—\$4.23	226,761	1.06	\$3.38	226,761	\$3.38
\$6.86—\$13.05	386,188	2.38	11.30	382,178	11.30
\$13.63—\$16.68	263,627	4.01	15.00	263,627	15.00
\$17.11—\$21.60	277,534	4.19	20.42	277,534	20.42
\$24.20—\$24.20	94,870	4.81	24.20	94,870	24.20
\$24.30—\$24.30	246,677	5.08	24.30	246,677	24.30
\$26.72—\$27.02	32,275	5.03	26.88	32,275	26.88
\$28.41—\$28.41	355,624	6.05	28.41	355,624	28.41
\$30.34—\$32.39	228,434	6.06	31.56	228,434	31.56
\$32.54—\$34.89	111,044	6.17	33.25	111,044	33.25
\$0.89—\$34.89	2,223,034	4.27	\$ 20.20	2,219,024	\$ 20.20

Board Compensation

On February 4, 2009, the Compensation Committee of the Board (the “Compensation Committee”) amended the previously approved arrangement pursuant to which the non-employee directors and the Chairmen of the Audit Committee of the Board (the “Audit Committee”) and the Compensation Committee, respectively, were granted Options for each regular Board and Committee meeting attended. Under the arrangement as amended, (i) each non-employee director was granted a restricted stock award of 1,000 shares of Common Stock for each regular meeting of the Board attended in 2009 and during the first three quarters of 2010 and (ii) each of the Chairmen of the Audit Committee and Compensation Committee was granted a restricted stock award of 625 shares of Common Stock for attendance at each regular meeting of the respective Committee in 2009 and during the first three quarters of 2010 that he chaired. In addition, in 2009 and in 2010, each non-employee director was granted, for each fiscal quarter during which he served, a restricted stock award of that number of shares of Common Stock equal to the quotient of \$12,500 divided by the closing price of the Common Stock on NASDAQ on the date of grant, which is the effective date of the grant determined by the Board for each such quarter, rounded down to the closest full number of shares. Under the arrangement as amended, the date of grant shall not be a date prior to the date of the Board’s determination of the same and such restricted stock awards shall vest on the fourth anniversary of the date of grant, subject to accelerated vesting in the event of a director’s death, disability, cessation of service or the end of his term or the occurrence of a change of control of Ultimate.

On October 25, 2010, the Board amended the previously approved arrangement pursuant to which the non-employee directors and Chairmen of the Audit and Compensation Committees of the Board, respectively, were granted Awards for each regular Board and Committee meeting attended. Under the arrangement, as amended, (i) each non-employee director was granted a restricted stock award of 750 shares of Common Stock for each regular meeting of the Board attended in the fourth quarter of 2010 and in 2011 and (ii) each of the Chairmen of the Audit Committee and Compensation Committee was granted a restricted stock award of 468 shares of Common Stock for attendance at each regular meeting of the Committee during the fourth quarter of 2010 and in 2011 that he chaired.

The following table summarizes information about Restricted Stock Awards granted by us to non-employee directors in exchange for director related services rendered for 2011, 2010 and 2009:

<u>Year</u>	<u>Market Value of Restricted Stock Awards Granted</u>	<u>Number of Restricted Stock Awards Granted</u>
2009	\$14.43	10,580
	18.75	9,580
	26.97	8,565
	27.63	8,510
2010	\$30.29	8,310
	31.84	8,210
	33.33	8,125
	42.03	6,171
2011	\$53.33	5,856
	53.57	5,851
	50.75	5,916
	63.57	5,666

The non-cash compensation expense, recognized in the consolidated statements of operations related to the Restricted Stock Awards granted to non-employee directors, including the chairmen of the Audit and Compensation Committees, determined pursuant to the application of ASC 718 for the years ended December 31, 2011, 2010 and 2009, was \$706,000, \$427,000 and \$188,000, respectively, and is included in general and administrative expenses.

Common Stock

The holders of Common Stock are entitled to one vote per share for each share held of record on all matters submitted to a vote of the stockholders.

17. Commitments and Contingencies

Operating Leases

We lease corporate office space and certain equipment under non-cancelable operating lease agreements expiring at various dates. Total rent expense under these agreements was \$5.5 million, \$4.0 million and \$3.8 million for the years ended December 31, 2011, 2010 and 2009, respectively. Future minimum annual rental commitments related to these leases are as follows at December 31, 2011 (in thousands):

<u>Year</u>	<u>Amount</u>
2012	\$ 5,082
2013	4,785
2014	5,158
2015	4,557
2016	3,850
Thereafter	4,543
	<u>\$ 27,975</u>

Litigation

From time-to-time, Ultimate is involved in litigation relating to claims arising out of its operations in the normal course of business. We are not currently a party to any legal proceeding the adverse outcome of which, individually or in the aggregate, could reasonably be expected to have a material adverse effect on our operating results or financial condition.

18. Related Party Transactions

On October 23, 2006, Ultimate's Board elected Al Leiter as a non-employee member of Ultimate's Board of Directors. During October 2002, Mr. Leiter entered into an agreement with Ultimate pursuant to which he agreed to (i) attend and participate in certain internal meetings of Ultimate; (ii) assist our salespeople with prospects; and (iii) act as an official spokesperson for Ultimate in exchange for which we agreed to make contributions to Leiter's Landing, Mr. Leiter's non-profit charitable organization benefiting children, in the amount of one tenth (1/10) of one percent, or 0.1%, of our total revenues as reported in our consolidated statements of operations. Pursuant to this agreement, for the fiscal years ended December 31, 2011, 2010 and 2009, Ultimate contributed a total of approximately \$200,000, \$200,000, and \$197,000, respectively, to Leiter's Landing. In February 2007, Mr. Leiter and Ultimate agreed that the maximum amount payable by Ultimate in any one year under this agreement is \$200,000.

19. Employee Benefit Plan

Ultimate provides retirement benefits for eligible employees, as defined, through a defined contribution plan that is qualified under Section 401(k) of the Internal Revenue Code (the "401(k) Plan"). Contributions to the 401(k) Plan, which are made at the sole discretion of Ultimate, were \$2.5 million, \$2.0 million and \$1.8 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Ultimate carried out an evaluation, under the supervision and with the participation of Ultimate's management, including the Chief Executive Officer (the "CEO") and the Chief Financial Officer (the "CFO"), of the effectiveness of the design and operation of Ultimate's disclosure controls and procedures as of the end of the period covered by this Form 10-K pursuant to Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, Ultimate's management, including the CEO and CFO, concluded that, as of December 31, 2011, Ultimate's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in Ultimate's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Ultimate's disclosure controls and procedures were designed to provide reasonable assurance as to the achievement of these objectives. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events and thus has inherent limitations. Therefore, even those systems determined to be effective can only provide reasonable assurance as to the achievement of their objectives.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Exchange Act). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2011. In making this assessment, our management used the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the results of this assessment, our management has concluded that, as of December 31, 2011, our internal control over financial reporting was effective. However, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and, even when determined to be effective, can only provide reasonable assurance with respect to financial statement preparation and presentation.

KPMG LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Form 10-K, has issued an attestation report on Ultimate's internal control over financial reporting as of December 31, 2011, which is included on page 78 of this Form 10-K.

Changes in Internal Control Over Financial Reporting

There have been no changes during the fourth quarter of 2011 in Ultimate's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Ultimate's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
The Ultimate Software Group, Inc.:

We have audited The Ultimate Software Group, Inc.'s (the Company's) internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Ultimate Software Group, Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-

year period ended December 31, 2011, and our report dated February 29, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

February 29, 2012
Miami, Florida
Certified Public Accountants

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The directors, executive officers (Messrs. Scott Scherr, Marc D. Scherr and Mitchell K. Dauerman) and other key employees of Ultimate, and their ages as of February 18, 2012, are as follows:

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
Scott Scherr	59	Chairman of the Board, President and Chief Executive Officer
Marc D. Scherr	54	Vice Chairman of the Board and Chief Operating Officer
Mitchell K. Dauerman	54	Executive Vice President, Chief Financial Officer and Treasurer
Jon Harris	47	Senior Vice President and General Manager, Enterprise Services
Robert Manne	58	Senior Vice President, General Counsel
Vivian Maza	50	Senior Vice President, Chief People Officer and Secretary
Adam Rogers	37	Senior Vice President, Chief Technology Officer
Greg Swick	48	Senior Vice President, Chief Enterprise Sales Officer
Chris Phenicie	40	Senior Vice President, Chief Workplace Sales Officer
Bill Hicks	46	Senior Vice President, Shared Services Chief Information Officer
Julie Dodd	42	Senior Vice President and General Manager, Workplace Services
Jody Kaminsky	37	Senior Vice President, Marketing
James A. FitzPatrick, Jr..	62	Director
LeRoy A. Vander Putten	77	Director
Rick A. Wilber	65	Director
Robert A. Yanover	75	Director
Alois T. Leiter	46	Director

Scott Scherr has served as President and a director of Ultimate since its inception in April 1996 and has been Chairman of the Board and Chief Executive Officer of Ultimate since September 1996. Mr. Scherr is also a member of the Executive Committee of the Board of Directors (the “Board”). In 1990, Mr. Scherr founded The Ultimate Software Group, Ltd. (the “Partnership”), the business and operations of which were assumed by Ultimate in 1998. Mr. Scherr served as President of the Partnership’s general partner from the inception of the Partnership until its dissolution in March 1998. From 1979 until 1990, he held various positions at ADP, a payroll services company, where his titles included Vice President of Operations and Sales Executive. Prior to joining ADP, Mr. Scherr operated Management Statistics, Inc., a data processing service bureau founded by his father, Reuben Scherr, in 1959. He is the brother of Marc Scherr, the Vice Chairman of the Board of Ultimate and the father-in-law of Adam Rogers, Senior Vice President, Chief Technology Officer.

Marc D. Scherr has been a director of Ultimate since its inception in April 1996 and has served as Vice Chairman since July 1998 and as Chief Operating Officer since October 2003. Mr. Scherr is also a member of the Executive Committee of the Board. Mr. Scherr became an executive officer of Ultimate effective March 1, 2000. Mr. Scherr served as a director of Gerschel & Co., Inc., a private investment firm from January 1992 until March 2000. In December 1995, Mr. Scherr co-founded Residential Company of America, Ltd. (“RCA”), a real estate firm, and served as President of its general partner until March 2000. Mr. Scherr also served as Vice President of RCA’s general partner from its inception in August 1993 until December 1995. From 1990 to 1992, Mr. Scherr was a real estate pension fund advisor at Aldrich, Eastman & Waltch. Previously, he was a partner in the Boston law firm of Fine & Ambrogne. Mr. Scherr is the brother of Scott Scherr, Chairman of the Board, President and Chief Executive Officer of Ultimate.

Mitchell K. Dauerman has served as Executive Vice President of Ultimate since April 1998 and as Chief Financial Officer and Treasurer of Ultimate since September 1996. From 1979 to 1996, Mr. Dauerman held various positions with KPMG LLP, an accounting firm, serving as a Partner in the firm from 1988 to 1996. Mr. Dauerman is a Certified Public Accountant.

Jon Harris has served as Senior Vice President since January 1, 2002 and General Manager, Enterprise Services since February 6, 2007. Mr. Harris served as Vice President, Professional Services from July 1998 through December 31, 2001. From 1992 to 1997, Mr. Harris held various management positions within ADP's National Accounts Division. From 1989 to 1992, Mr. Harris held the position of Consulting Services Director for Sykes Enterprises, Inc., a diverse information technology company.

Robert Manne has served as Senior Vice President, General Counsel since February 2004 and served as Vice President, General Counsel from May 1999 through January 2004. Prior to joining Ultimate, Mr. Manne was an attorney and partner of Becker & Poliakoff, P.A., an international law firm, since 1978. In addition to administering the Litigation Department of the law firm, Mr. Manne was a permanent member of the firm's executive committee which was responsible for law firm operations. Mr. Manne has performed legal services for Ultimate since its inception.

Vivian Maza has served as Senior Vice President, Chief People Officer and Secretary of Ultimate since February 2004 and served as Vice President, People from January 1998 through January 2004. Ms. Maza has served as Secretary of Ultimate since September 1996. Prior to that, Ms. Maza served as the Office Manager of Ultimate from its organization in April 1996 and of the Partnership from its inception in 1990 until April 1996. Ms. Maza is an HR Generalist and holds a Professional in Human Resources (PHR) certification from the Society for Human Resource Management (SHRM) association. From 1985 to 1990, Ms. Maza was a systems analyst for the Wholesale Division of ADP.

Adam Rogers has served as Senior Vice President, Chief Technology Officer since February 6, 2007. Mr. Rogers served as Senior Vice President, Development from December 2002 to February 6, 2007. From July 2001 to December 2002, Mr. Rogers served as Vice President of Engineering. From May 1997 to July 2001, Mr. Rogers held various positions in Ultimate's research and development organization, including Director of Technical Support from October 1998 to November 1999 and Director of Web Development from November 1999 to July 2001. Mr. Rogers is the son-in-law of Scott Scherr, Chairman of the Board, President and Chief Executive Officer of Ultimate.

Greg Swick has served as Senior Vice President since January 2001 and as Chief Enterprise Sales Officer since February 6, 2007. Mr. Swick served as Vice President and General Manager of the PEO Division of Ultimate's sales organization from November 1999 to January 2001. From February 1998 to November 1999, Mr. Swick was Director of Sales, Northeast Division. Prior to joining Ultimate, Mr. Swick was President of The Ultimate Software Group of New York and New England, G.P., a reseller of Ultimate Software which was acquired by Ultimate in March 1998. From 1987 to 1994, Mr. Swick held various positions with ADP, where the most recent position was Area Vice President — ADP Dealer Services Division.

Chris Phenicie has served as Senior Vice President, Chief Workplace Sales Officer since January 2009 and served as Vice President of Workplace Sales from April 2007 until January 2009. From January 2000 to April 2007, Mr. Phenicie served as Strategic Account Manager for Ultimate. From July 1997 to January 2000, Mr. Phenicie held various sales positions with ADP, the most recent of which position was Sales Manager.

Bill Hicks has served as Senior Vice President, Shared Services Chief Information Officer since April 2005. Mr. Hicks served as Vice President, Chief Information Officer from February 2004 through March 2005. From 1993 until February 2004, Mr. Hicks held various positions in the management of technologies for Precision Response Corporation, a wholly-owned subsidiary of Interactive Corporation and a provider of call centers and on-line commerce customer care services, including Chief Information Officer and Senior Vice President of Technology from August 2000 until February 2004.

Julie Dodd has served as Senior Vice President and General Manager, Workplace Services, since April 2010. Ms. Dodd served as Vice President and General Manager of Workplace Operations from January 2009 until April 2010. From October 2007 to December 2008, Ms. Dodd served as the Director of Product Strategy, with primary focus on the UltiPro Workplace product offering. Prior to joining Ultimate, Ms. Dodd provided consulting services for large scale implementations, operations efficiencies projects and new SaaS product launches for various service providers. From 2002 to 2005, Ms. Dodd held various executive positions with Ceridian Corporation, an information technology company, supporting their small and mid-market solutions.

Jody Kaminsky has served as Senior Vice President, Marketing since April 2010. Ms. Kaminsky served as Vice President, Marketing from July 2008 until April 2010. Ms. Kaminsky served as Vice President, Marketing Operations from July 2005 to June 2008, as Director of Strategic Marketing from December 2002 through June 2005, and in various other Marketing and Communications positions from November 1999 through November 2002. Prior to that, Ms. Kaminsky held various positions with General Electric's GE Information Services division from April 1997 through August 1999 including Manager of Communications and Community Relations.

James A. FitzPatrick, Jr. has served as a director of Ultimate since July 2000. Mr. FitzPatrick is a partner in the law firm Dewey & LeBoeuf LLP, which provides legal services to Ultimate. Mr. FitzPatrick has been a partner in Dewey & LeBoeuf LLP or its predecessor firms since January 1983 and was an associate from September 1974 until January 1983.

LeRoy A. Vander Putten has served as a director of Ultimate since October 1997, is Chairman of the Compensation Committee of the Board and is a member of the Audit Committee of the Board. Mr. Vander Putten served as the Executive Chairman of The Insurance Center, Inc., a holding company for 14 insurance agencies, from October 2001 until January 2006 at which time the company was sold. Previously, he served as the Chairman of CORE Insurance Holdings, Inc., a member of the GE Global Insurance Group, engaged in the underwriting of casualty reinsurance, from August 2000 to August 2001. From April 1998 to August 2000, he served as Chairman of Trade Resources International Holdings, Ltd., a corporation engaged in trade finance for exporters from developing countries. From January 1988 until May 1997, Mr. Vander Putten was Chairman and Chief Executive Officer of Executive Risk Inc., a specialty insurance holding company. From August 1982 to January 1988, Mr. Vander Putten served as Vice President and Deputy Treasurer of The Aetna Life and Casualty Company, an insurance company.

Rick A. Wilber has served as a director of Ultimate since October 2002 and is a member of the Audit Committee and a member of the Compensation Committee of the Board. Mr. Wilber formerly served on Ultimate's Board of Directors from October 1997 through May 2000. Since 1995, Mr. Wilber has served as the President of Lynn's Hallmark Cards, which owns and operates a number of Hallmark Card stores. Mr. Wilber has served as a director of Vanguard Energy Corporation, an oil and gas company since June 2010. Mr. Wilber has served as a director of Synergy Resource Corporation, an oil and gas exploration company, since October 2008. Mr. Wilber was a co-founder of Champs Sports Shops and served as its President from 1974 to 1984. He served on the Board of Royce Laboratories, a pharmaceutical concern, from 1990 until April 1997, when Royce Laboratories was sold to Watson Pharmaceuticals, Inc., a pharmaceutical concern.

Robert A. Yanover has served as a director of Ultimate since January 1997 and is Chairman of the Audit Committee and a member of the Compensation Committee of the Board. Mr. Yanover founded Computer Leasing Corporation of Michigan, a private leasing company, in 1975 and served as its President from its founding until 2007, at which time Mr. Yanover retired. Mr. Yanover also founded Lason, Inc., a corporation specializing in the imaging business, and served as Chairman of the Board from its inception in 1987 until 1998 and as a director through February 2001.

Al Leiter has served as director of Ultimate since October 2006 and is a member of the Compensation Committee. Mr. Leiter was a three-time Major League Baseball World Champion and two-time All-Star pitcher formerly with the New York Yankees, New York Mets, Toronto Blue Jays, and Florida Marlins, and has been an official spokesperson for Ultimate since 2002. Mr. Leiter has served as a television commentator for the Yankees Entertainment and Sports Network since 2006 and as an analyst with MLB Network since January 2009. Mr. Leiter is president and founder of Leiter's Landing, a charitable organization formed in 1996. Mr. Leiter has served on the Executive Committee of New York City's official tourism marketing organization, NYC & Company, since 2000 and is on the Board of Directors of America's Camp, a legacy organization of the Twin Towers Fund, on which he also served as a board member.

Each officer serves at the discretion of the Board and holds office until his or her successor is elected and qualified or until his or her earliest resignation or removal. Messrs. LeRoy A. Vander Putten and Robert A. Yanover serve on the Board in the class whose term expires at the Annual Meeting of stockholders (the "Annual Meeting") in 2014. Messrs. Marc D. Scherr, James A. FitzPatrick, Jr. and Rick A. Wilber serve on the Board in the class whose term expires at the Annual Meeting in 2012. Messrs. Scott Scherr and Al Leiter serve on the Board in the class whose term expires at the Annual Meeting in 2013.

Code of Ethics

Ultimate has adopted a Code of Ethics within the meaning of Item 406 of Regulation S-K of the Exchange Act. Ultimate's Code of Ethics applies to its principal executive officer, principal financial officer and principal accounting officer. A copy of Ultimate's Code of Ethics is posted on Ultimate's website at www.ultimatesoftware.com. In the event that Ultimate makes any amendments to, or grants any waiver from, a provision of the Code of Ethics that requires disclosure under Item 5.05 of Form 8-K, Ultimate will post such information on its website.

Corporate Governance

The Board does not have a standing nominating committee or committee performing similar functions. The Board has determined that it is appropriate not to have a nominating committee because of the relatively small size of the Board and because the entire Board functions in the capacity of a nominating committee.

When considering potential director candidates, the Board considers the candidate's independence (as mandated by the NASDAQ rules), character, judgment, age, skills, financial literacy, and experience in the context of the needs of Ultimate and the Board. Other information required by this item is incorporated herein by reference to the information set forth in Ultimate's Proxy Statement for the Annual Meeting in 2012 under the heading "Corporate Governance, Board Meetings and Committees of the Board." In 2011, Ultimate did not pay any fees to a third party to assist in identifying or evaluating potential nominees.

The Board will consider director candidates recommended by Ultimate’s stockholders in a similar manner as those recommended by members of management or other directors.

Other Information

The information required by this item is incorporated herein by reference to the information set forth in Ultimate’s Proxy Statement for the Annual Meeting in 2012 under the headings “Section 16(a) Beneficial Ownership Reporting Compliance” and “Corporate Governance, Board Meetings and Committees of the Board-Audit Committee.”

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the information in Ultimate’s Proxy Statement for the 2012 Annual Meeting under the headings “Executive Compensation Policy,” “Director Compensation” and “Compensation Committee Report.”

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information set forth in this item is incorporated herein by reference to the information in Ultimate’s Proxy Statement for the 2012 Annual Meeting under the heading “Security Ownership of Certain Beneficial Owners and Management.”

Equity Compensation Plan Information.

The following table summarizes information related to Ultimate’s equity compensation plans as of December 31, 2011:

Equity Compensation Plan Information

Plan Category	(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted – Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	2,223,034	\$ 20.20	700,228
Equity compensation plans not approved by security holders	–	–	–
Total	2,223,034	\$ 20.20	700,228

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the information in Ultimate’s Proxy Statement for the 2012 Annual Meeting under the headings “Certain Relationships and Related Transactions,” “Compensation Committee Interlocks and Insider Participation” and “Corporate Governance, Board Meetings and Committees of the Board.”

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the information in Ultimate's Proxy Statement for the 2012 Annual Meeting under the heading "KPMG LLP Fees."

PART IV

Item 15. Exhibits and Financial Statement Schedule

(a) Documents filed as part of this Form 10-K:

1. The following consolidated financial statements of Ultimate, together with the report thereon, of KPMG LLP, our Independent Registered Public Accounting Firm, are included in Part II, Item 8, of this Form 10-K:

Consolidated Balance Sheets as of December 31, 2011 and 2010

Consolidated Statements of Operations for the Years Ended
December 31, 2011, 2010 and 2009

Consolidated Statements of Stockholders' Equity and
Comprehensive Income (Loss) for the Years Ended December 31,
2011, 2010 and 2009

Consolidated Statements of Cash Flows for the Years Ended
December 31, 2011, 2010 and 2009

Notes to Consolidated Financial Statements

3. Exhibits

Number	Description
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.4 to the Registration Statement on Form S-1 (File No. 333-47881), initially filed March 13, 1998 (the “Registration Statement”))
3.2	Certificate of Designations of Series A Junior Preferred Stock (incorporated by reference to Exhibit 2 to Ultimate’s Current Report on Form 8-K dated October 23, 1998)
3.3	Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3.5 to the Registration Statement)
4.1	Form of Certificate for the Common Stock, par value \$0.01 per share **
4.2	Form of Warrant for Common Stock (incorporated by reference to Exhibit 4.4 to Ultimate’s Registration Statement on Form S-3 (File No. 333-107527), initially filed July 31, 2003)
10.1	Shareholders Rights Agreement, dated June 6, 1997 among Ultimate and certain stockholders named therein **
10.2	Asset Purchase Agreement, dated February 2, 1998, among The Ultimate Software Group of Virginia, Inc., Ultimate and certain principals named therein **
10.3	Asset Purchase Agreement, dated February 2, 1998, among Ultimate, The Ultimate Software Group of the Carolinas, Inc. and certain principals name therein **
10.4	Asset Acquisition Agreement, dated February 20, 1998, among Ultimate, The Ultimate Software Group of Northern California, Inc. and certain principals named therein **
10.5	Asset Purchase Agreement dated March 4, 1998, among Ultimate, Ultimate Investors Group, Inc. and certain principals name therein **
10.6	Agreement and Plan of Merger dated February 24, 1998, among Ultimate, ULD Holding Corp., Ultimate Software Group of New York and New England, G.P. and certain principals named therein **
10.7	Nonqualified Stock Option Plan, as amended and restated as of December 20, 2002 (incorporated by reference to the corresponding exhibit in Ultimate’s Annual Report on Form 10-K dated March 31, 2003)
10.8	Commercial Office Lease agreement by and between UltiLand, Ltd., a Florida limited partnership, and Ultimate, dated December 31, 1998 (incorporated by reference herein to corresponding exhibit in Ultimate’s Annual Report on Form 10-K dated March 31, 1999)
10.9	Rights Agreement, dated as of October 22, 1998, between Ultimate and BankBoston, N.A., as Rights Agent. The Rights Agreement includes the Form of Certificate of Designations of Series A Junior Preferred Stock as Exhibit A, the Form of Rights Certificate as Exhibit B, and the Summary of Rights as Exhibit C (incorporated by reference herein to Exhibit 2 to Ultimate’s Current Report on Form 8-K dated October 23, 1998)
10.10	Commercial Office Lease by and between UltiLand, Ltd., a Florida limited partnership and Ultimate, dated December 22, 1998 (incorporated by reference to Exhibit 10.1 to Ultimate’s Quarterly Report on Form 10-Q dated August 15, 1999)
10.11	Letter Agreement between Aberdeen Strategic Capital LP and Ultimate, dated October 21, 1999 (incorporated herein by reference to Exhibit 10.1 to Ultimate’s Quarterly Report on Form 10-Q dated November 15, 1999)
10.12	Warrant issued to Aberdeen Strategic Capital LP (incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q dated November 15, 1999)
10.13	Software License Agreement between Ultimate and Ceridian Corporation dated as of March 9, 2001 (incorporated by reference to Exhibit 10.17 to Ultimate’s Annual Report on Form 10-K dated March 27, 2001)
10.14	Letter amendment between Ultimate and Ceridian Corporation dated as of August 9, 2001 (incorporated by reference to Exhibit 10.14 to Ultimate’s Annual Report on Form 10-K dated March 29, 2002)
10.15	Letter amendment between Ultimate and Ceridian Corporation dated as of February 5, 2002

- (incorporated by reference to Exhibit 10.15 to Ultimate's Annual Report on Form 10-K dated March 29, 2002)
- 10.16 Loan and Security Agreement by and between Ultimate and Silicon Valley Bank dated as of November 29, 2001 (incorporated by reference to Exhibit 10.16 to Ultimate's Annual Report on Form 10-K dated March 29, 2002)
- 10.17 Revolving Promissory Note by and between Ultimate and Silicon Valley Bank dated as of November 29, 2001 (incorporated by reference to Exhibit 10.17 to Ultimate's Annual Report on Form 10-K dated March 29, 2002)
- 10.18 Equipment Term Note by and between Ultimate and Silicon Valley Bank dated as of November 29, 2001 (incorporated herein by reference to Exhibit 10.18 to Ultimate's Annual Report on Form 10-K dated March 29, 2002)
- 10.19 Services Agreement between Ultimate and Ceridian Corporation dated as of February 10, 2003 (incorporated by reference to the corresponding exhibit in Ultimate's Annual Report on Form 10-K dated March 31, 2003)
- 10.20 Third Loan Modification Agreement by and between Ultimate and Silicon Valley Bank dated March 27, 2003 (incorporated by reference to the corresponding exhibit in Ultimate's Annual Report on Form 10-K dated March 31, 2003)
- 10.21 Fourth Loan Modification Agreement by and between Ultimate and Silicon Valley Bank dated as of April 29, 2003 (incorporated by reference to Exhibit 10.10 to Ultimate's Quarterly Report on Form 10-Q dated May 14, 2003)
- 10.22 Change in Control Bonus Plan for Executive Officers, effective March 5, 2004 (incorporated by reference to Exhibit 10.1 to Ultimate's Quarterly Report on Form 10-Q dated May 13, 2004)
- 10.23 Fifth Loan Modification Agreement by and between Ultimate and Silicon Valley Bank dated as of May 28, 2004 (incorporated by reference to Exhibit 10.1 to Ultimate's Quarterly Report on Form 10-Q dated August 12, 2004)
- 10.24 Silicon Valley Bank Second Amended and Restated Revolving Promissory Note by and between Ultimate and Silicon Valley Bank dated May 28, 2004 (incorporated by reference to Exhibit 10.2 to Ultimate's Quarterly Report on Form 10-Q dated August 12, 2004)
- 10.25 Amended Nonqualified stock option agreement (incorporated by reference to Exhibit 10.1 to Ultimate's Form 8-K dated January 3, 2006)
- 10.26 Amended Director Fee Option Award Agreement (incorporated by reference to Exhibit 10.2 to Ultimate's Form 8-K dated January 3, 2006)
- 10.27 Amended Director Fee Option Agreement for Non-Employee Directors (as incorporated by reference to Exhibit 10.27 to Ultimate's Annual Report on Form 10-K dated March 15, 2006)
- 10.28 Entry into a Material Definitive Agreement with executives (incorporated by reference to Ultimate's Form 8-K, Item 1.01 dated February 10, 2006)
- 10.29 Seventh Loan Modification Agreement between Ultimate and Silicon Valley Bank (incorporated by reference to Exhibit 10.1 to Ultimate's Form 8-K dated June 17, 2005)
- 10.30 Term Note between Ultimate and Silicon Valley Bank (incorporated by reference to Exhibit 10.2 to Ultimate's Form 8-K dated June 17, 2005)
- 10.31 Notice of Termination of License Agreement and Acknowledgement of Receipt by Ceridian Corporation dated, March 9, 2006 (incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K, dated March 15, 2006)
- 10.32 Commercial Office Lease by and between ROHO Ultimate, LTD. II, a Florida limited partnership ("Landlord") and Ultimate dated May 23, 2001 (incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K, dated March 15, 2006)
- 10.33 Agreement of Purchase and Sale by and between Parry F. Goodman and Ivy Goodman and Robert J. Manne and/or assigns dated September 22, 2004 (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K, dated March 15, 2006)
- 10.34 Assignment of Agreement of Purchase and Sale by and between Robert J. Manne a/k/a Robert Manne and Ultimate dated October 26, 2004 (incorporated by reference to Exhibit 10.34 to Ultimate's Annual Report on Form 10-K, dated March 15, 2006)
- 10.35 Weston Town Center South Office Building Lease between South Office Building-DLB, LLC, a Florida Limited Liability Company, South Office Building Bagtrust, LLC, a Florida Limited Liability Company, and South Office Building-BJB, LLC, a Florida Limited Liability Company, and Ultimate and Weston Common Area LTD., dated August 18, 2005 (incorporated by reference to Exhibit 10.35 to Ultimate's Annual Report on Form 10-K, dated March 15, 2006)

- 10.36 Galleria Atlanta office lease agreement between Galleria 600, LLC, a Delaware limited liability company, and Ultimate, dated April 27, 2006 (incorporated by reference to Exhibit 10.36 to Ultimate's Quarterly Report on Form 10-Q, dated August 8, 2006)
- 10.37 Lease of Office Space by and between OMERS Realty Corporation CPP Investment Board Real Estate Holdings Inc., and The Ultimate Group of Canada, Inc., dated August 22, 2006 (incorporated by reference to Exhibit 10.37 to Ultimate's Quarterly Report on Form 10-Q, dated November 8, 2006)
- 10.38 Indemnity Agreement between OMERS Realty Corporation, CPP Investment Board Real Estate Holdings, Inc., and Ultimate dated August 22, 2006 (incorporated by reference to Exhibit 10.38 to Ultimate's Quarterly Report on Form 10-Q, dated November 8, 2006)
- 10.39 Amendment to Lease by and between ROHO Ultimate, Ltd. I ("Landlord") and Ultimate Group, Inc. ("Tenant") for Demised premises at 2000 Ultimate Way, Weston, FL 33326 (the "Premises") dated February 15, 2000 (incorporated by reference to Exhibit 10.39 to Ultimate's Annual Report on Form 10-K, dated March 16, 2007)
- 10.40 Lease Relating to Unit 2 Sceptre House, Hornbeam Park, Harrogate between St. James Property Management Limited ("The Landlord") And RTIX Limited ("The Tenant") dated May 25, 2005 (incorporated by reference to Exhibit 10.40 to Ultimate's Annual Report on Form 10-K, dated March 16, 2007)
- 10.41 Counterpart/Underlease relating to Unit 2 Second Floor Sceptre House Hornbeam Square North Hornbeam Business Park, Harrogate between RTIX Limited ("The Landlord") and First 4 IT Limited to ("The Tenant") dated May 25, 2005 (incorporated by reference to Exhibit 10.41 to Ultimate's Annual Report on Form 10-K, dated March 16, 2007)
- 10.42 First Amendment to Lease between Galleria 600, LLC ("Landlord") and Ultimate, dated August 18, 2006 (incorporated by reference to Exhibit 10.42 to Ultimate's Annual Report on Form 10-K, dated March 16, 2007)
- 10.43 Amended and Restated Change in Control Bonus Plan for Executive Officers, effective July 24, 2007 (incorporated by reference to Exhibit 10.1 to Ultimate's Quarterly Report on Form 10-Q, dated August 8, 2007)
- 10.44 Amended and Restated 2005 Equity and Incentive Plan (incorporated by reference to Exhibit 10.1 to Ultimate's Form 8-K, dated May 18, 2009)
- 10.45 Commercial lease between Weston Office, LLC ("Landlord") and Ultimate, dated January 18, 2008 (incorporated by reference to Exhibit 10.45 to Ultimate's Annual Report on Form 10-K, dated March 13, 2008)
- 10.46 Amended and Restated Rights Agreement, dated as of August 26, 2008, between Ultimate and Computershare Trust Company, N.A., as Rights Agent. The Rights Agreement includes the Form of Certificate Designations of Series A Junior Preferred Stock as Exhibit A, the Form of Rights Certificate as Exhibit B and the Summary of Rights as Exhibit C (incorporated by reference herein to Exhibit 4.1 to Ultimate's Current Report on Form 8-K dated September 2, 2008).
- 10.47 Commercial lease between AGF Woodfield Owner, L.L.C., ("Landlord") and Ultimate, dated October 31, 2008 (incorporated by reference to Exhibit 10.47 to Ultimate's Annual Report on Form 10-K, dated March 2, 2009)
- 10.48 Commercial lease between 300 Galleria Parkway Associates, L.P., ("Landlord") and Ultimate, dated September 8, 2009 (incorporated by reference to Exhibit 10.33 to Ultimate's Quarterly Report on Form 10-Q, dated November 9, 2009)
- 10.49 Commercial lease between RT Twenty-Sixth Pension Properties Limited ("Landlord") and Ultimate, dated September 4, 2009 (incorporated by reference to Exhibit 10.34 to Ultimate's Quarterly Report on Form 10-Q, dated November 9, 2009)
- 10.50 Master Space Agreement between Quality Technology Services Miami LLC and Ultimate, dated June 1, 2009 (incorporated by reference to Exhibit 10.1 to Ultimate's Quarterly Report on Form 10-Q, dated August 9, 2010)
- 10.51 Master Space Agreement between Quality Technology Services Metro LLC and Ultimate, dated June 1, 2009 (incorporated by reference to Exhibit 10.2 to Ultimate's Quarterly Report on Form 10-Q, dated August 9, 2010)
- 10.52 Service Order Form between Verizon Canada Ltd. And Ultimate, dated September 23, 2009 (incorporated by reference to Exhibit 10.3 to Ultimate's Quarterly Report on Form 10-Q, dated August 9, 2010)
- 10.53 Amended and Restated Change in Control Bonus Plan for Executive Officers dated April 26, 2010 (incorporated by reference to Exhibit 10.4 to Ultimate's Quarterly Report on Form 10-Q, dated August 9, 2010)
- 10.54 Commercial lease between 2000 Main Street Associates, LLC ("Landlord") and Ultimate, dated

- November 3, 2010 (incorporated by reference to Exhibit 10.54 to Ultimate's Annual Report on Form 10-K, dated March 1, 2011)
- 10.55 Commercial lease between Micari Holdings, LLC ("Landlord") and Ultimate, dated November 5, 2010 (incorporated by reference to Exhibit 10.55 to Ultimate's Annual Report on Form 10-K, dated March 1, 2011)
- 10.56 Commercial lease between Galleria 400, LLC ("Landlord") and Ultimate, dated December 29, 2010 (incorporated by reference to Exhibit 10.56 to Ultimate's Annual Report on Form 10-K, dated March 1, 2011)
- 10.57 Commercial lease between AG/LPC Griffin Towers, L.P., ("Landlord") and Ultimate, dated February 23, 2011 (incorporated by reference to Exhibit 10.1 to Ultimate's Quarterly Report on Form 10-Q, dated May 10, 2011)
- 21.1 Subsidiary of the Registrant *
- 23.1 Consent of Independent Registered Public Accounting Firm *
- 31.1 Certification Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended*
- 31.2 Certification Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended *
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended *
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended *
- 101.1 Interactive Data Files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of December 31, 2011 and 2010, (ii) Consolidated Statements of Operations for the Years Ended December 31, 2011, 2010 and 2009, (iii) Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) for the Years Ended December 31, 2011, 2010 and 2009, (iv) Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2010 and 2009 and (v) Notes to Consolidated Financial Statements.

* Filed herewith.

** Incorporated by reference to the corresponding exhibit in Ultimate's Registration Statement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

THE ULTIMATE SOFTWARE GROUP, INC.

By: /s/ Mitchell K. Dauerman
Mitchell K. Dauerman
Executive Vice President, Chief Financial
Officer and Treasurer

Date: February 29, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Scott Scherr</u> Scott Scherr	President, Chief Executive Officer and Chairman of the Board	February 29, 2012
<u>/s/ Mitchell K. Dauerman</u> Mitchell K. Dauerman	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	February 29, 2012
<u>/s/ Marc D. Scherr</u> Marc D. Scherr	Vice Chairman of the Board and Chief Operating Officer	February 29, 2012
<u>/s/ James A. FitzPatrick, Jr.</u> James A. FitzPatrick, Jr.	Director	February 29, 2012
<u>/s/ LeRoy A. Vander Putten</u> LeRoy A. Vander Putten	Director	February 29, 2012
<u>/s/ Rick Wilber</u> Rick Wilber	Director	February 29, 2012
<u>/s/ Robert A. Yanover</u> Robert A. Yanover	Director	February 29, 2012
<u>/s/ Alois T. Leiter</u> Alois T. Leiter	Director	February 29, 2012

Consent of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
The Ultimate Software Group, Inc.:

We consent to the incorporation by reference (i) in the registration statements (No. 333-107527 and No. 333-115894) on Forms S-3 of The Ultimate Software Group, Inc. (the Company) and (ii) the registration statements (No. 333-55985, No. 333-91332, No. 333-125076, No. 333-142972, and No. 333-161201) on Forms S-8 of the Company of our reports dated February 29, 2012, with respect to the consolidated balance sheets of The Ultimate Software Group, Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2011, and the effectiveness of internal control over financial reporting as of December 31, 2011, which reports appear in the December 31, 2011 Annual Report on Form 10-K of the Company.

/s/ KPMG LLP

February 29, 2012
Miami, Florida
Certified Public Accountants

CERTIFICATIONS

I, Scott Scherr, certify that:

1. I have reviewed this annual report on Form 10-K of The Ultimate Software Group, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this annual report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the Registrant and have:
 - a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

/s/ Scott Scherr
Scott Scherr
Chief Executive Officer

Date: February 29, 2012

CERTIFICATIONS

I, Mitchell K. Dauerman, certify that:

1. I have reviewed this annual report on Form 10-K of The Ultimate Software Group, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this annual report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the Registrant and have:
 - a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

/s/ Mitchell K. Dauerman

Mitchell K. Dauerman

Chief Financial Officer

(Principal Financial and Accounting Officer)

Date: February 29, 2012

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Scott Scherr, Chief Executive Officer of The Ultimate Software Group, Inc., hereby certify to the best of my knowledge and belief that this Annual Report on Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)) and that the information contained in this Annual Report on Form 10-K fairly represents, in all material respects, the financial condition and results of operations of The Ultimate Software Group, Inc.

/s/ Scott Scherr
Scott Scherr
Chief Executive Officer

Date: February 29, 2012

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mitchell K. Dauerman, Chief Financial Officer of The Ultimate Software Group, Inc., hereby certify to the best of my knowledge and belief that this Annual Report on Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)) and that the information contained in this Annual Report on Form 10-K fairly represents, in all material respects, the financial condition and results of operations of The Ultimate Software Group, Inc.

/s/ Mitchell K. Dauerman
Mitchell K. Dauerman
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: February 29, 2012